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Recent developments in external debt

Report of the Secretary-General

Summary

The present report, submitted in compliance with General Assembly resolution 61/188, reviews recent developments in the external debt of developing countries and the related recent phenomenon of capital flows from developing to developed countries. It analyses the role of new borrowing strategies and new debt instruments and reviews progress in the Highly Indebted Poor Countries Initiative and developments in Paris Club rescheduling. The report points to several issues related to the debt sustainability framework for low- and middle-income countries and discusses potential vulnerabilities arising from the increasingly important role of structured finance.

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I. Introduction

1. The present report is prepared for the consideration of the General Assembly, in compliance with the request made by the Assembly in paragraph 25 of its resolution 61/188. It contains a comprehensive and substantive analysis of the external debt of developing countries. The report aims at elucidating new developments and key trends in external debt and related areas of development financing, and providing reference for deliberation of the policy issues it raises.

II. Recent trends

2. In 2006, total external debt of developing countries increased in nominal value (from $2,742 billion to $2,851 billion) but decreased as a share of their gross national product (GNP) from 29 to 25 per cent (see statistical annex to the present report). Sub-Saharan Africa and the Middle East and North Africa regions experienced the biggest drop in external debt ratios (from 37 to 24 per cent and from 28 to 14 per cent, respectively). South Asia is the only region where the external debt ratio did not change, but, together with East Asia, this is also one of the two regions with the lowest stock of external debt. East Europe and Central Asia witnessed a small reduction of external debt (from 41 to 40 per cent of GNP) but remains the region with the highest external debt ratio. Latin America and the Caribbean is the region with the second highest level of external debt, but external debt in this region is decreasing rapidly.

3. Different factors drive varying regional trends. In sub-Saharan Africa, the decrease in the debt ratio comes from a net decrease in nominal debt (from $215 billion to $173 billion) mostly owing to debt relief. In the Middle East and North Africa, nominal debt remained broadly constant, whereas the decrease in the debt ratio was mostly due to GNP growth. In South Asia both debt and GNP grew by about 10 per cent. In East Europe and Central Asia, external debt grew by 14 per cent and nominal GNP grew by 19 per cent. In Latin America and the Caribbean the drop in external debt was due to both lower nominal debt levels and high GNP growth.

4. Developing countries as a group reduced their sovereign external debt with both official and private creditors. During 2006, sovereign debt buybacks reached $30 billion[1] and over 2005-2006 repayments of bilateral debt to Paris Club countries and of multilateral debt to the international financial institutions exceeded new lending by approximately $145 billion.[2] This translated into an increase in the share of debt owed to private creditors, which went from 66 to 71 per cent of long-term external debt from 2005 to 2006. The reduction in external sovereign debt was partly compensated by an increase in external borrowing by the private sector. As a consequence, the share of developing countries' long-term external debt which is not public or publicly guaranteed doubled since the second half of the 1990s, reaching 41 per cent in 2006.

5. The reduction of sovereign external debt was made possible by debt relief and favourable external conditions. High commodity prices, high liquidity, low risk

[1] Some buybacks were financed by issuing new external debt with more favourable conditions.

[2] World Bank, *Global Development Finance 2007* (Washington, D.C., 2007).

aversion and low spreads allowed several middle-income countries to refinance their external obligations and substitute external debt with domestic debt. This highlights the important interplay between the external and domestic components of viable public debt strategies.

6. Bonded debt, which was negligible before the 1990s, now accounts for over a quarter of developing countries' debt stock. This poses several challenges to debt policy planning as external factors play a role in determining the spreads on emerging markets' external debt and this leads to sources of volatility which are beyond the direct control of domestic financial authorities.

7. Interestingly, 2006 witnessed a reversal in the long-term trend towards more bond financing. A decline in net bond flows was more than compensated by an increase in net bank lending.[3] Thus, it would be misleading to focus on bonded debt without examining the evolution of the stock of bank debt, which remains an important source of financing for several developing countries. In fact, the majority of developing countries (60 per cent of the total) never accessed the international bond market between 1980 and 2006 and only around 20 emerging market countries regularly issue bonds in international capital markets. In this connection, South-South syndicated bank loans have acquired an increasing importance. While this form of finance only accounts for approximately 5 per cent of bank lending to developing countries, it is growing rapidly and it has become an important source of finance in sub-Saharan Africa, where South-South lending represents 20 per cent of total syndicated bank loans.[2]

8. All regions, with the exception of Latin America and the Caribbean, also observed an increase in their share of short-term external debt, which now stands at about 22 per cent of total external debt. This increase in the share of short-term debt is unlikely in itself to generate vulnerabilities because it was more than compensated by a net increase in international reserves, which now amount to more than four times the level of short-term debt. This is well above the Guidotti-Greenspan rule of thumb, which suggests that reserves should be equal to short-term debt.[4] While the majority of developing countries are characterized by high international reserves and current account surpluses, some countries (especially in Eastern Europe and Central Asia) are in a more fragile situation and exhibit large current account deficits and a net appreciation of the real exchange rate.

III. Capital flows from developing to rich countries

9. The last few years witnessed record financial inflows to developing countries but these inflows were more than compensated by large current account surpluses and unprecedented reserve accumulation. By the end of 2006, international reserves of developing countries were above $2.5 trillion. This created a situation in which the developing world is lending to the advanced economies (especially to the United

[3] Net private debt flows increased by $24 billion. This was driven by a $26 billion increase in long-term bank lending and a $4 billion increase in short-term debt and a $6 billion decrease in bonded debt.

[4] Traditionally, optimal reserve coverage has been measured in terms of months of imports. The focus on imports implicitly assumes that balance of payment crises tend to occur in the trade balance. However, recent balance of payment crises originated in the capital account (hence, the focus on short-term debt and other financial variables).

States of America which, with a current account deficit of approximately $850 billion, is the largest borrowing country). Economic theory suggests that capital should flow from rich to poor countries but capital flows are going in the opposite direction, prompting a vivid policy debate.

10. This accumulation of reserves is seen by some observers as evidence of mercantilist policies that violate International Monetary Fund (IMF) rules against exchange rate manipulation.[5] Countries that are accumulating exchange rate reserves argue that their strategy is driven by the need to self-protect against future currency and financial crises. In this sense, their strategy offers them double protection. First, in keeping exchange rates slightly undervalued and more competitive, these countries are able to avoid sudden jumps of their exchange rate, while overvalued exchange rates are difficult and often impossible to defend. Moreover, a slightly undervalued currency is consistent with lower, pro-growth domestic interest rates. Secondly, by accumulating ample war chests of reserves, they stand ready to deal with possible market turbulence.[6] While it is commonly thought that there is a fiscal cost linked to reserves accumulation, this is only the case for countries characterized by high interest rates. Countries that manage to maintain domestic interest rates which are lower than the interest rate paid by the reserves (such as China) are actually making a net gain from reserve accumulation.

11. Furthermore, countries with a weak banking system may want to accumulate reserves to deal with a possible banking crisis. If this is the case, the relevant prudential ratio is international reserves scaled by bank liquid liabilities (which can be proxied by M2).[7] Although the ratio of reserves to M2 has grown considerably over the last 15 years (going from 11 to 29 per cent), it is only now close to the 30 per cent threshold which some analysts consider as a prudent level of reserves for countries with weak banking systems. Moreover, East Asian countries, which exhibit some of the highest rates of reserve accumulation, have a reserve to M2 ratio which is lower than the developing country average (this is also the case in China and India, with ratios of approximately 25 per cent).

12. Thus, it is not surprising that recent research shows that most countries hold reserves for precautionary and not mercantilist, reasons.[8] The fact that these strategies are favoured over the use of the protection mechanisms provided by international financial institutions points to possible weaknesses in the international financial architecture. The financial crises that hit several emerging markets in the late 1990s were devastating and several developing countries found the post-crisis adjustment "policy packages" proposed by the international financial community to be intrusive in the sphere of governance, encroaching upon their sovereignty and

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[5] M. Goldstein, "A (Lack of) Progress Report on China's Exchange Rate Policies", Peterson Institute for International Economics (June 2007). Ironically, most of the concern in this respect is for China (whose currency is slowly appreciating) and not on other countries with large surpluses (such as Japan or Switzerland) which, because of carry trade, are facing real depreciations.

[6] If developing countries did not value the option of being able to rapidly deploy their reserves, it would be hard to explain why most reserves are kept in low-return liquid assets.

[7] A low declining of reserve to M2 ratio is a leading indicator of a currency crisis (G. Kaminsky and C. Reinhart, "The Twin Crises: The Causes of Banking and Balance-of-Payments Problems", in *The American Economic Review*, vol. 89, No. 3 (June 1999), pp. 473-500.

[8] J. Aizenman and J. Lee, "International Reserves: Precautionary versus Mercantilist Views, Theory and Evidence" (2005), *Open Economies Review* (forthcoming).

generally ineffective. Thus, such countries adopted pre-emptive policies aimed at minimizing the need for reliance on international bailout in case of future crisis. Such a trend, which is partly driven by the fact that the major advanced economies are not fully committed to adopting policies aimed at guaranteeing global financial stability, marginalizes useful international financial institutions and leads to the adoption of second-best policies. This highlights the importance of achieving a truly cooperative monetary system and a reform of the international financial institutions that, by giving more voice to developing countries, would increase ownership of the policy prescriptions they advocate.

13. Another reason why developing countries are running current account surpluses and accumulating international reserves is that while economic theory suggests that financial flows should promote growth in the recipient countries, there is empirical evidence that developing countries that rely less on foreign capital are able to raise domestic investment and grow at a faster rate than countries that rely more on foreign capital. There are different explanations which apply to different types of countries for this paradox: (i) traditional models argue for a causal link going from saving to investment to growth; in some cases, however, faster growing countries can save more and hence are able to internally finance their investment needs;[9] (ii) developing countries with underdeveloped financial systems may do a poor job at channelling foreign flows to its most productive use;[10] (iii) capital flows often result in an appreciation of the real exchange rate, which is damaging for the export-oriented manufacturing sector and creates monetary conditions adverse to overall growth. This points to the conclusion that: (a) policies that stimulate growth can also generate the financial resources necessary for sustaining growth with a smaller need for external financial flows; and, (b) countries with less developed financial sectors should be cautious of fully opening their capital account. To do so before the domestic financial intermediation system can ensure productive and efficient allocation of domestic and international resources could lead to the opposite of the expected outcome.

IV. New borrowing strategies of developing countries

14. Analysis of public debt in developing countries has traditionally focused on external debt. However, several countries are now adopting policies aimed at retiring public external debt and substituting it with domestic debt. Although data on the level and composition of public debt are not fully reliable, available estimates indicate that over 1994-2004, domestic public debt rose from 16 to 24 per cent of developing countries' GNP and that the share of domestic public debt over total public debt grew from 39 to 57 per cent.[11] There is evidence that this trend accelerated over the last two years. In 2006 more that 70 per cent of the stock of public debt of emerging market countries had been issued domestically.[12]

15. Low-income countries also have a tradition of domestic borrowing. Accumulation of domestic public debt in low-income countries can be driven by

[9] See UNCTAD, *Trade and Development Report 2006*, chap. I, annex 2.

[10] E. Prasad, R. Rajan, and A. Subramanian, *Foreign Capital and Economic Growth*, International Monetary Fund (2007) (unpublished).

[11] U. Panizza, Domestic Public Debt in Developing Countries, UNCTAD (2007) (unpublished).

[12] JP Morgan Chase, "Emerging Markets Debt and Fiscal Indicators" (2007).

either too little or too much foreign aid. Countries that run a budget deficit which is not fully matched by donor flows often issue domestic debt because the standard policy advice of the international financial institutions is to limit external borrowing at commercial rates. The build-up of domestic debt driven by foreign aid inflows is often the result of Governments' decisions tc sterilize aid inflows in order to avoid appreciations of the real exchange rate.[13]

16. Analysis of public debt in developing countries has traditionally focused on external debt owing to three reasons. First, external borrowing can increase a country's access to resources, but domestic borrowing only transfers resources within the country. Secondly, since central banks in developing countries cannot print the currency necessary to repay external debt, external borrowing is associated with vulnerabilities that may lead to debt crises. Thirdly, there are no reliable data on domestic public debt. There are, however, reasons to think that some of these rationales for focusing exclusively on external debt may no longer be valid in the current environment.

17. The access to external resources argument would still be relevant if countries were able to track the residence of the ultimate holders of their bonded debt. According to the official definition, external debt is all debt owed to non-residents. However, this definition is difficult to apply in the current global financial environment where a large share of external debt due to private creditors takes the form of bonds traded in anonymous markets. As a consequence, most countries classify as external all debt issued on the international market and classify as domestic all debt issued in the domestic market. The information is thus misleading because it does not measure what it promises to do and "external" debt data are a poor measure of the actual transfer of resources across countries. A definition which classifies as external all debt issued under foreign law does not lead to misleading conclusions regarding the residency of the holders of a country's debt. This definition is the one which is de facto adopted by most national statistical offices and should also be considered as the de jure definition of external debt. Countries that can provide information on residence of the holders of public debt should be encouraged to do so. However, as these data are difficult to obtain, it is better to start with what is measurable and build on that towards a revamped data reporting system.

18. The second argument for focusing on external debt alone is also weak. In countries with an open capital account, currency and maturity mismatches are the real source of vulnerabilities and policymakers need to explicitly recognize the trade-off involved in switching to more domestic borrowing.[14] Excessive focus on the external/domestic debt dichotomy diverts attention from the fact that vulnerabilities arise from the structure of total public debt. For instance, countries with a large stock of external debt which is long term and denominated in domestic currency are less vulnerable than countries which have a large stock of domestic debt denominated in foreign currency and with a short maturity.

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[13] This suggests that some countries receive more aid than what they can absorb. For more details see the report of the Secretary-General entitled "Follow-up to and implementation of the outcome of the International Conference on Financing for Development" (forthcoming).

[14] These trade-offs include the possibility of trading a currency mismatch for a maturity mismatch and the fact that the switch to domestic borrowing could pressure institutional investors and banks to absorb "too much" public debt and this may have a negative effect on financial stability and crowd out private issuers.

19. The third argument for focusing on external debt remains valid. Researchers at the International Monetary Fund (IMF) and the Inter-American Development Bank attempted to collect data on the composition of total public debt for various subsets of developing countries,[15] but at this stage there is no dataset with a global coverage for all developing countries. The advisable policy response to this problem is to increase the set of available information and to pay greater attention to the important and growing domestic component of public debt.

V. New instruments and players

20. There is now a consensus that the composition of debt is as important as its level. Other things equal, a safer debt structure for borrowers can substantially reduce the probability of a debt crisis. Under the right circumstances, safer debt instruments that may reduce the risks of sovereign borrowing include domestic currency debt, long-term debt and debt contracts which require payments that are linked to the borrower's ability to pay. Of particular interest are GDP-indexed bonds which provide a mechanism for linking a country's debt-servicing obligations to the level of economic activity, such that in times of high growth debt servicing would be higher, whereas the opposite would hold during recessions.

21. Small amounts of GDP-indexed bonds were issued in Brady deals in the 1980s, but failed to attract any trading interest. However, there are now increasing opportunities for developing countries to issue instruments that provide greater insurance against various risks that affect their economies. Insuring against negative shocks to the economy has two advantages for borrowing countries. First, it helps to maintain fiscal solvency (it is usually the arrival of negative shocks that renders unaffordable a level of debt that was up to that point sustainable). Secondly, it can improve fiscal policy because during bad times Governments would have less debt-servicing costs and more "fiscal space".

22. A frequently mentioned problem is the complexities of pricing these new instruments. While contingent instruments like GDP-indexed bonds are more difficult to price than plain vanilla bonds, they should not be more difficult to price than some widely traded emerging market derivatives. Pricing issues could be alleviated by creating a set of comparable instruments issued by different emerging economies. Though small and occasional additions to the pool of GDP-indexed bonds, would not solve the issue of a sizeable amount of comparable instruments, a coordinated effort of several countries could generate the necessary critical mass. International institutions could play a role in supporting the development of a market for GDP-indexed bonds, both through policy advice and by promoting a coordinated issuance of such instruments by a number of countries to provide benchmarking.

23. New forms of lending could also benefit low-income countries with limited market access. For instance, most lending by the international financial institutions is either in United States dollars, euro, yen, or special drawing rights. The

[15] O. Jeanne and A. Guscina, *Government Debt in Emerging Market Countries: A New Data Set*, IMF Working Paper 06/98 (April 2006); and K. Cowan, E. Levy Yeyati, U. Panizza, and F. Sturzenegger, *Sovereign Debt in the Americas: New Data and Stylized Facts*, Inter-American Development Bank Research Department Working Paper 577 (October 2006).

international financial institutions could switch to a system in which they borrow and lend in the currencies of their client countries and hence help the development process with both their assets (through local currency loans) and their liabilities (by helping to develop the international market for bonds in the currencies of developing countries).[16]

24. While new debt instruments could play a role in reducing the probability of debt crises, it is important to recognize that the likelihood remains low that in the near future sizeable sums can be raised by developing countries through such instruments. Hence, prudence in issuing new debt and policies aimed at avoiding overborrowing by both the public and the private sectors will remain essential for avoiding debt and financial crises.

25. Since financial futures started trading in 1972, the worldwide derivatives industry has seen impressive growth rates of around 25 per cent a year. In 2006, the outstanding nominal value of swaps and derivatives stood at $286 trillion (about six times the world's GNP). One of the latest developments in the derivatives markets has been the introduction of credit default swaps. In its simplest form, a buyer of a credit default swap pays a default premium to the seller of the swap and, if a default occurs, the seller of the swap covers the losses the buyer has incurred as a result of the default. Credit default swaps now amount to about 20 per cent of the face value of emerging market sovereign debt and are particularly important in Latin American countries.

26. Credit default swaps can lead to a better distribution of risk, increase the efficiency of financial markets and reduce borrowing costs. Thus, the growth of the credit default swaps market could be a positive factor for developing countries. It could also be a source of risk, however, especially if all parties involved do not have risk modelling and management capabilities that parallel their exposure to the market. Keeping track of these risks is complicated by the fact that financial innovation is often faster than the pace of improvement in market infrastructure. Some investors may have taken large positions without understanding them well and a shock may cause this market to unravel. If conditions turn unexpectedly for the worse in an emerging market country, the sellers of credit default swaps may not be able to absorb their losses and spark a sell-off of risky assets with negative repercussions for emerging market issuers.

27. Collateralized debt obligations have also grown exponentially over the last few years. Collateralized debt obligations represent a group of financial assets which are sliced into different parts (tranches) that carry different risks. Collateralized debt obligations are difficult to value and are rarely traded. Credit rating agencies played an instrumental role in the development of the collateralized debt obligation market, as the ratings assigned to various tranches allow institutional investors to participate in an otherwise sub-investment grade market. However, it is unclear if the ratings assigned to collateralized debt obligation tranches are a good reflection of the risk of these instruments. Recent events related to the crisis of subprime mortgage lending suggest that the market value of some collateralized debt obligations is well below their book value. This is another reason for more scrutiny of the role of credit

[16] See B. Eichengreen and R. Hausmann, editors, *Other People's Money*, University of Chicago Press (2005), chap. 10, and R. Hausmann and R. Rigobon, "IDA in UF: On the benefits of changing the currency denomination of concessional lending to low-income countries" (2003) (unpublished).

rating agencies, an issue already noted by the General Assembly in its resolution 61/188.

28. Until recently, sovereign borrowing was at the centre of financial flows to developing countries, but in the last few years corporate borrowing has become increasingly important. In 1996, only 20 per cent of long-term external debt was owed by private borrowers. In 2006 that share had doubled to 41 per cent. During 2002-2006, private borrowers contracted 60 per cent of developing countries' external long-term bank loans and issued 75 per cent of developing countries' external bonds.[2] The increase in corporate borrowing has been especially important in Eastern Europe and Central Asia. During 2006, firms from this region contracted new debt for $135 billion and they account for 40 per cent of total corporate debt of developing countries, up from a 19 per cent average over 1996-2003.

29. By relying more on the international markets, corporate borrowers may have increased their exposure to interest rate and currency risk and this exposure raises several policy challenges. The most important among these is to assess the public sector's contingent liabilities arising from private sector borrowing. Governments need to pay particular attention to the rapid increase in foreign currency borrowing by domestic banks. Although there are no indications that the banking sector as a whole has overborrowed in recent years, some banks in Eastern European and Central Asian countries have borrowed heavily in international capital markets, and on-lent those funds in the domestic market. This could lead to currency mismatches either in the banks or in the ultimate borrowers' balance sheets and thus increase financial fragility.

VI. Debt sustainability analysis

30. Over the last few years, IMF developed a debt sustainability framework for middle-income, market access countries and the IMF and World Bank jointly developed a DSF for low-income countries. While the main objective of the framework for middle-income, market access countries is to examine vulnerabilities and devise policies aimed at reducing the probability of a debt crisis, the framework for low-income countries is also aimed at guiding International Development Association (IDA) grant-allocation decisions. Although the increasing importance of domestic borrowing is often recognized, most debt sustainability analyses in both middle- and low-income countries concentrate on external debt and do not integrate the dynamics between domestic and external debt. The standard justification for this approach is that external and domestic public debt have different default risk and hence cannot be simply added to each other to form a single indicator of total public debt.

31. An aggregate debt ratio where "riskier" types of debt have a higher weight than safer types of debt would be superior to the current practice of either assigning the same weight to all types of debt or of assigning a weight of one to all types of external debt and a weight of zero to all other types of debt. Better information on debt structure and more research on vulnerabilities arising from different types of debt could help in designing such an indicator. This would in turn improve debt management and reduce the probability of debt crises through better tracking of debt risks. Another problem with the standard debt sustainability framework is that it gives too little weight to the fact that almost all the variables that drive the evolution

of public and external debt depend on each other and are endogenous with respect to debt levels. Finally, the standard approach is unsuitable to support debt restructuring as it does not fully distinguish solvency from liquidity problems. Thus, it is difficult to use this approach to apply the provisions in the Evian approach for debt write-offs for non-heavily indebted poor countries (HIPCs).

32. The most important issue with the debt sustainability framework for low-income countries has to do with its use of debt thresholds aimed at measuring a country's risk of debt distress and determining eligibility for IDA grants. According to the framework, debt sustainability is driven by a combination of the country's debt ratios and the quality of its policies (as measured by the Country Policy and Institutional Assessment index). The thresholds are calculated by using an econometric exercise that does not predict very reliably the probability of debt distress and the debt sustainability framework classifications are blunt, grouping countries into general categories. This may lead to sub-optimal outcomes, as the borrowing capacity of those at the top of the group may be underestimated and those at the bottom may be overestimated. The current framework risks replacing the former "one-size fits all" approach to a "four or five-sizes fits all" approach.

33. Several concerns remain with respect to the use of the Country Policy and Institutional Assessment index. The concept of good governance and institutions is inherently subjective and, since the World Bank is also making recommendations to countries on issues of governance, the index may reflect how well countries are implementing the Bank's policy advice. Another concern pertains to the accuracy of the measure and the consistency with which it is measured across countries. Finally, the index may not offer the proper incentive and rewards for low performers and fragile States.[17]

34. The Country Policy and Institutional Assessment is used to both allocate IDA resources — through the IDA resource allocation index — and to guide IDA grant-allocation decision — through the debt sustainability framework. Other things equal, a higher Country Policy and Institutional Assessment score is associated with more resource allocation and a lower score may lead to more grants. It is puzzling that, on the one hand, better policies are associated with more resources and that, on the other hand, countries with higher levels of debt and poorer policies may be awarded higher grant elements than countries with stronger policies and moderate levels of debt.

35. Finally, the debt sustainability framework is based on the primacy of debt servicing and does not explicitly include an evaluation of the needs that are necessary for reaching the Millennium Development Goals. As stated in the report of the Secretary-General on follow-up to the outcome of the Millennium Summit: "... we should redefine debt sustainability as the level of debt that allows a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios" (see A/59/2005, para. 54). Other considerations have also been cited in United Nations forums, such as the Commission on Human Rights, which called for the drafting of guidelines for external debt relief programmes to ensure that the need to service foreign debt will not undermine obligations for the realization of

[17] See Center for Global Development, *The World Bank's Work in the Poorest Countries: Five Recommendations for a New IDA*, report of the IDA 15 Working Group (2007).

fundamental economic, social and cultural rights.[18] Meanwhile, the growing legal and political interest in concepts such as odious debt and responsible lending, adds yet another dimension to the concept of debt sustainability and its applicability as currently defined.[19]

VII. Debt relief and official development assistance

36. Since the launch of the enhanced HIPC Initiative in 2000, delivery of debt relief has been steady, if slow, with an average of three countries completing the programme and an average of two countries starting the programme per annum. Since 2006, four countries reached the completion point and two countries reached the decision point.[20] In April 2007, Afghanistan was added to the list of eligible countries, increasing the number of eligible countries to 41. Of these, 22 have completed the program, 8 are between decision and completion point, and 11 have yet to reach the decision point. A decade after the process began, it has become increasingly urgent to expedite this process and deliver the needed debt relief.

37. Between 1995 and 2005, total debt stocks for the 28 HIPCs that had reached the decision point declined by approximately 10 per cent in nominal terms (from $116 billion to $104 billion) and by 50 per cent as a share of GNP (from 140 to 70 per cent of GNP). There have been changes in the composition of HIPC debt, which has become increasingly multilateral (and concessional in nature) and long term. Among the objectives of the HIPC Initiative was to free resources for poverty reduction activities. In fact, the decline in the debt service ratio to GNP in HIPC completion countries was accompanied by an increase in the ratio of poverty reducing expenditures to GNP. It is unlikely, however, that this increase in poverty reduction expenditures will be sufficient to achieve the Millennium Development Goals by 2015.[21] This raises the question of additionality of aid which was supposed to be a key component of the HIPC Initiative.

38. Net nominal official development assistance (ODA) disbursement by the 22 member countries of the Development Assistance Committee (DAC), less debt forgiveness, declined from the start of the Initiative to its lowest level in 1999. It is only in the past few years that nominal ODA less debt forgiveness has risen above the 1996 value. But nominal ODA less debt forgiveness remains at levels similar to those prevailing in the early 1990s and real ODA less debt forgiveness is well below its pre-HIPC levels. ODA levels went from 0.33 per cent of donor countries' GNP in 1990 to an estimated 0.25 per cent of donor countries' GNP in 2006. These findings suggest that debt relief under the HIPC Initiative has not been additional.[22] Ten years after the launch of the Initiative, it would be worthwhile to reconsider the

[18] The Commission on Human Rights, in its resolution 2004/18 of 16 April 2004, appointed an independent expert to examine and report on such guidelines. See *Official Records of the Economic and Social Council, 2004, Supplement No. 3* (E/2004/23), chap. II.

[19] See R. Howse, "The concept of odious debt in public international law", UNCTAD Discussion Papers (forthcoming).

[20] Completion point: Cameroon, Malawi, São Tome and Principe and Sierra Leone. Decision point: the Congo and Haiti.

[21] See table 3.A2 of the UNCTAD *Trade and Development Report 2006*.

[22] A World Bank evaluation finds that the enhanced Initiative has been additional. However, this evaluation uses as the point of reference the year in which aid reached its lowest level in three decades when measured as a ratio to donor countries' GNP.

modalities and eligibility criteria for debt relief in a manner that ensures additionality and separates future debt relief for low-income countries from more critical ODA requirements.

39. Under the Multilateral Debt Relief Initiative (MDRI), 22 HIPC countries have benefited from 100 per cent cancellation of their outstanding multilateral debt claims from IMF, IDA, and the African Development Bank. At the end of 2006, the Inter-American Development Bank announced its intention to also cancel the debt of its HIPC members, clearing the way for five Latin American HIPCs to benefit from MDRI upon completion of the HIPC Initiative.[23] However, the financing modality of the debt cancellation by the Inter-American Development Bank raises concerns as it reduces the resources of the Bank's concessional lending arm and may lead to lower concessional lending to low-income countries in Latin America and the Caribbean.

40. The past 12 months have again shown that the number of Paris Club meetings is on the decline compared to the previous decade. There were six Paris Club meetings, five for HIPCs and one for a non-HIPC. Malawi, São Tome and Principe and Sierra Leone reached the completion point over the last 12 months, and obtained a 100-per cent debt reduction of their Paris Club debt. The case of Haiti was treated under Cologne terms as the country reached the decision point in November 2006, with the special provision that moratorium interest would be postponed until 2010. The Central African Republic reached an accord with IMF on its Poverty Reduction Strategy Paper in December 2006, and in April 2007 obtained a rescheduling of its debt obligations falling due between 2006 and 2009 under Naples terms. It is expected that a Cologne terms rescheduling will take place when the country reaches the decision point.

41. The trend of prepaying Paris Club debt has continued in 2006/2007. The Paris Club accepted Peru's proposal for the prepayment of $2.5 billion and Macedonia's offer to prepay $104 million. Although the size of the deals in 2007 is not comparable to last year's record-breaking Russian Federation prepayment agreement for $22 billion, countries have continued to reduce their external debt burden vis-à-vis official bilateral creditors.

42. Meanwhile, the emergence of new bilateral lenders has prompted concerns that the new entrants are benefiting from the latest round of debt relief without sharing the burden of costs.[24] This argument is based on the claim that official creditors that did not participate in the latest round of debt reduction are endangering the progress made thus far by making non-concessional loans to countries, thus risking unsustainable debt situations in the future. While these concerns might be warranted, they are in one respect at least somewhat dubious. One of the objectives of debt relief was to address debt-overhang and thus encourage new investment and social expenditure. This is exactly what is happening, with several African countries for example benefiting from a net increase in infrastructure investment. By reducing the influence of the traditional donor cartel, the presence of new lenders and donors is also leading to some healthy competition and allowing recipient countries to

[23] As the Asian Development Bank did not signal its intention to participate in MDRI, there are three HIPCs (Afghanistan, Kyrgyzstan and Nepal) that will not benefit from full debt relief under MDRI.

[24] International Development Association, "IDA Countries and Non-Concessional Debt: Dealing with the 'Free Rider' Problem in IDA14 Grant-Recipient and Post-MDRI Countries" (June 2006).

choose among different development paradigms. After all, debt relief did not liberate much resources as most of this debt was not serviced to start with.[25] The best way to address alleged free-riding is to give new lenders and donors more voice in the decision-making process of the international financial institutions. This would also address what is probably the most serious problem brought about by the presence of new lenders, the fact that they are included neither in the current system aimed at dealing with debt rescheduling and debt renegotiation, nor in the relevant aid effectiveness and development cooperation forums.

43. Even including debt relief, current and projected levels of ODA fall short of the G-8 pledge in 2005 to double aid to Africa by 2010, while the most recent reiteration of pledges indicates a downward revision of targets rather than the scaling-up expected and required. Donor countries as a group are still committing less than the agreed target of 0.7 per cent of GNP to aid. The international aid system consists of more than 150 agencies and includes increasing South-South capital and aid flows, with several emerging economies in Asia, Latin America, and the Middle East becoming sources of external finance and aid for low-income countries. This advent of new donors should be used to spur deeper and wider reform of the international aid architecture, which, in the current set-up, gives inadequate voice to recipient countries.

44. The Paris Declaration,[26] endorsed in March 2005 by over 100 countries, is a first step in this direction. However, the emphasis of aid effectiveness is still on the accountability and governance of recipients. The United Nations is the appropriate organization to initiate the establishment of a permanent mechanism that represents the interests of the recipient countries and donors alike. UNCTAD could help setting the scene for such a universal forum through discussing the design of a new set of criteria for debt and aid measurement and evaluation.

VIII. Policy conclusions

45. The past few years have been characterized by a favourable international environment for the external debt of developing countries, not witnessed for many years hitherto. Ample global liquidity, together with favourable external conditions and policy improvements, led to low risk aversion and translated into low spreads and large access to resources by middle income developing countries. There are, however, signs that the situation may yet change. Long-term interest rates in the developed world are rising and the first half of 2007 has seen localized turmoil in some emerging market countries. Moreover, a few developing and transition countries are still characterized by large current account deficits and overvaluation of their exchange rates. Even though there have been no major financial crises in the recent past, a range of issues remain at the top of the international agenda for deeper cooperation in this area.

46. On the positive side, several developing countries used the last few years to improve their debt management strategies. The financial crises that hit emerging

[25] In this sense, debt relief brings new resources only to countries that did not accumulate large arrears.

[26] Paris Declaration on Aid Effectiveness, adopted by the High-Level Forum on Aid Effectiveness, Paris, 28 February-2 March 2005, available from www.oecd.org.

market countries in the second half of the 1990s made policymakers well aware of the risks of external borrowing and are at the root of the switch towards more domestic borrowing.

47. The international capital market can provide large amounts of funds, but the supply of these funds tends to be volatile. Large industrial countries can borrow abroad in their own currency, but most international borrowing by developing countries is in foreign currency. The incidence of foreign currency debt, together with the volatility of the real exchange rate that characterizes some developing countries, increases the instability of GNP growth and capital flows and the risk of sudden debt explosions.

48. Most domestically issued debt has the advantage of being denominated in the domestic currency and hence may reduce currency mismatches and may count on a more stable investor base. As a consequence, Governments which are trying to reduce the risk of a debt crisis by limiting excessive foreign borrowing and by developing the required infrastructure and institutional set-up for a well working domestic debt market should be encouraged and supported.

49. However, policymakers should not be too complacent as the new structure of debt could also lead to new vulnerabilities. Debt composition matters, but it is necessary to move beyond the external/domestic debt dichotomy. The switch to domestic borrowing could entail important trade-offs and, in deciding the optimal structure of public debt, debt managers should consider these trade-offs between the cost and risk of alternative forms of financing. In fact, in the current environment characterized by open capital account and by an increasing entry of international investors in domestic debt market, the traditional dichotomy between external and domestic debt does not make as much sense as it used to make in the past. Excessive focus on external debt may distract policymakers from the fact that the real sources of vulnerabilities are maturity and currency mismatches and lead to a situation in which the maturity and currency composition of domestically issued debt are not included among the vulnerability indicators used to predict financial crises or debt sustainability.

50. As vulnerabilities are often identified after a financial crisis starts to unravel, policymakers should be aware of possible new vulnerabilities. Crisis prevention requires detailed and prompt information on debt structure. The international community can play a major role in helping developing countries to improve their capacity to record and disseminate information on the structure of total public debt. This would help the research community to identify possible new vulnerabilities and thus help countries to improve their debt management strategy and further reduce the risk of a debt crisis. The creation of the Debt Management Financial and Analysis System Programme of UNCTAD was an important step in this direction, but to ensure sustainability more resources, continuous support, and more coordination among the various national debt offices are needed.

51. The presence of global imbalances and the fact that capital is flowing uphill from poor to rich countries is a source of concern as some important emerging market countries may decide that they no longer need the help and support of the international financial institutions. This highlights the need for a reform of the governance and the structure of relevant international institutions and the development of a truly cooperative global monetary system based on the ideas on which the Bretton Woods Institutions were founded more than 60 years ago. As the

current favourable external environment may not last forever, policymakers should use tranquil times to prepare for the next challenges. In this connection, it is regrettable that no progress has been made towards developing a mechanism for the resolution of sovereign default. This should remain a priority for the international community.

52. Debt relief has been too slow and has not been additional as planned and should be expanded to low-income countries which were not part of HIPC and MDRI initiatives. It is necessary to speed up the process and scale up ODA flows with the ultimate objective of reaching the Millennium Development Goals. There are serious issues with the current structure of the debt sustainability framework for low-income countries. While a simple rule to define debt sustainability would be welcome, more research is needed to justify the use of a small set of indicators to define debt sustainability. Until then, it is best to assess debt sustainability for development purposes on a case-by-case basis, with the full engagement of borrower Governments in adapting sustainability criteria to the situation at hand. This also calls for greater public scrutiny and an informed public debate on the methodology and appropriateness of assessing governance in developing countries.

53. The question of contingency risk arising from private sector borrowing and Governments' capacity to manage such risks appropriately will need to be given more attention in the future, as it is unlikely that the recent favourable international financial environment will continue indefinitely. This situation is rendered more precarious by the fact that global liquidity encourages international investors to take risks, leading to a situation in which a decline of credit quality is associated with lower spreads. While this may be explained by an increase in investors' ability to manage risk, statistical analysis suggests that risk spreads are much lower than what empirical models predict.

54. If a global downturn in the economic cycle were to occur, the correlation among a number of key economic variables could suddenly increase, producing higher risks than each event individually. This is especially an issue in the current environment characterized by an increasing importance of highly leveraged, opaque and difficult to price structured financial products. The unravelling of the market for these products could lead to a flight to quality and have serious negative consequences in both developing and advanced economies.

Annex

External debt indicators

(Billions of United States dollars)

	All developing countries						*Sub-Saharan Africa*					
	1990-94	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*	*1990-94*	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*
Total debt	1 522	2 090	2 367	2 767	2 742	2 851	191	229	214	238	215	173
Long-term debt	1 237	1 667	1 938	2 178	2 147	2 216	158	179	175	198	177	134
Private creditors (percentage)	48	53	59	62	66	71	25	24	22	21	24	36
Private borrowers (percentage)	8	20	28	31	37	41	4	5	7	7	7	14
International reserves	277	565	865	1 655	2 054	2 568	16	26	37	63	84	120
Debt indicators (percentage)												
Short-term debt/total debt	16	17	15	18	20	22	14	18	15	14	15	20
Total debt/exports	180	147	125	91	74	..	245	231	180	125	89	..
Debt service/GNP	4	5	6	5	5	5	4	5	4	3	4	3
Total debt/GNP	38	39	40	34	29	25	68	72	64	48	37	24
Reserves/short-term debt	110	158	246	336	376	418	63	62	117	192	263	343
Reserves/M2	11	19	20	27	28	29	14	21	27	29	32	39

	East Asia and the Pacific						*South Asia*					
	1990-94	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*	*1990-94*	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*
Total debt	300	502	522	588	621	653	138	152	166	196	191	210
Long-term debt	240	383	409	404	400	408	122	140	157	183	177	193
Private creditors (percentage)	47	59	57	54	57	59	25	28	33	38	38	41
Private borrowers (percentage)	15	31	33	34	36	37	3	7	12	16	20	23
International reserves	97	213	376	803	1 020	1 292	18	33	71	150	157	171
Debt indicators (percentage)												
Short-term debt/total debt	20	23	19	29	34	37	7	6	4	5	6	7
Total debt/exports	124	106	79	52	44	..	289	194	146	109	84	..
Debt service/GNP	5	4	4	3	3	3	3	3	3	3	3	2
Total debt/GNP	37	35	29	22	21	19	37	30	26	22	19	19
Reserves/short-term debt	168	195	382	464	480	529	228	398	1 068	1 469	1 325	1 174
Reserves/M2	14	15	16	23	25	26	10	13	18	27	23	22

	Middle East and North Africa						*Latin America and Caribbean*					
	1990-94	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*	*1990-94*	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*
Total debt	147	161	151	169	153	150	487	668	781	816	728	711
Long-term debt	123	138	128	141	124	119	378	522	654	669	622	618
Private creditors (percentage)	35	26	29	33	39	43	64	72	78	78	78	81
Private borrowers (percentage)	1	4	5	5	9	13	11	27	36	31	33	35
International reserves	28	46	66	112	135	164	92	161	169	227	263	304
Debt indicators (percentage)												
Short-term debt/total debt	15	12	14	16	18	20	19	18	13	13	13	13
Total debt/exports	158	149	106	81	62	..	233	192	175	137	102	..
Debt service/GNP	8	6	5	4	4	3	4	6	9	8	7	6
Total debt/GNP	64	50	39	35	28	14	39	37	45	42	31	26
Reserves/short-term debt	125	235	315	417	484	549	98	131	174	219	284	333
Reserves/M2	12	17	17	22	23	24	19	28	26	30	27	27

	Europe and Central Asia					
	1990-94	*1995-98*	*1999-03*	*2004*	*2005*	*2006[a]*
Total debt	257	378	532	760	834	955
Long-term debt	216	305	415	583	647	743
Private creditors (percentage)	57	54	67	76	84	89
Private borrowers (percentage)	4	13	33	47	59	63
International reserves	..	86	145	300	395	522
Debt indicators (percentage)						
Short-term debt/total debt	14	14	17	19	20	21
Total debt/exports	..	118	130	105	94	..
Debt service/GNP	3	4	9	9	10	8
Total debt/GNP	..	38	54	46	41	40
Reserves/short-term debt	116	171	162	206	234	263
Reserves/M2	20	32	41	49	49	53

Source: UNCTAD calculations based on World Bank, Global Development Finance 2007. Developing Countries as defined in the Global Development Finance publication.

[a] Estimated.

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Review of the implementation of the recommendations and decisions adopted by the General Assembly at its tenth special session

United Nations Institute for Disarmament Research

Note by the Secretary-General

The Secretary-General hereby transmits to the General Assembly the report of the Director of the United Nations Institute for Disarmament Research on the activities of the Institute for the period from August 2006 to July 2007 and the proposed programme of work and estimated budget for 2007 and 2008.

The report was considered and approved for submission to the General Assembly by the Board of Trustees of the Institute at the forty-eighth session of the Secretary-General's Advisory Board on Disarmament Matters, held from 16 to 18 July 2007.

* A/62/150.

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Report of the Director of the United Nations Institute for Disarmament Research on the activities of the Institute for the period from August 2006 to July 2007 and the proposed programme of work and estimated budget for 2007-2008

Summary

The General Assembly issued a standing request in 1984 for the Director of the United Nations Institute for Disarmament Research (UNIDIR) to report on a yearly basis to the Assembly on the activities of the Institute. To that end, the Director prepared the present report covering the activities of the Institute during the period from August 2006 to July 2007 for the consideration of the Board of Trustees of the Institute at the forty-eighth session of the Secretary-General's Advisory Board on Disarmament Matters, held from 16 to 18 July 2007.

The Director reports that the UNIDIR work programme continued to be centred on three main areas: global security and disarmament; regional security and disarmament; and human security and disarmament, thus addressing the full range of substantive disarmament issues from small arms to weapons in space.

A subvention from the United Nations regular budget is the guarantee of the independence of UNIDIR. By means of the present report, the Board of Trustees transmits to the Secretary-General a recommendation for a subvention for the Institute from the regular budget for the biennium 2008-2009. The Director also reports on the status of the voluntary funds from Governments and philanthropic foundations.

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1. The present report covers the activities of UNIDIR during the period from August 2006 to July 2007 and the proposed programme of work and estimated budget for 2007 and 2008.

I. Management and staffing

2. The work of UNIDIR is carried out with a dedicated small staff: a director, a deputy director, an administrative assistant, a specialized secretary for publications, a part-time computer systems manager, a research programmes and publications manager, a part-time conference organizer, a part-time fund-raising assistant, editors for the journal and for reports and books, and project researchers. Over the past year, UNIDIR had a total of 30 staff members, 2 of whom were directing staff, 3 support staff (administrative and technical), 5 core substantive programme staff, 19 project research staff and 3 visiting research fellows. In 2006/07, UNIDIR sustained its young researchers programme, hosting 11 young researchers from six countries. Women are well represented at UNIDIR, comprising two thirds of the staff, including the Director.

3. The 2006-2007 period covered by this report was characterized by increased outreach and relations with the United Nations system. In addition, UNIDIR has been actively participating in the overall effort of United Nations reform, including the system-wide mandate review and the related consideration of the research requirements within the United Nations.

II. Subvention from the United Nations regular budget

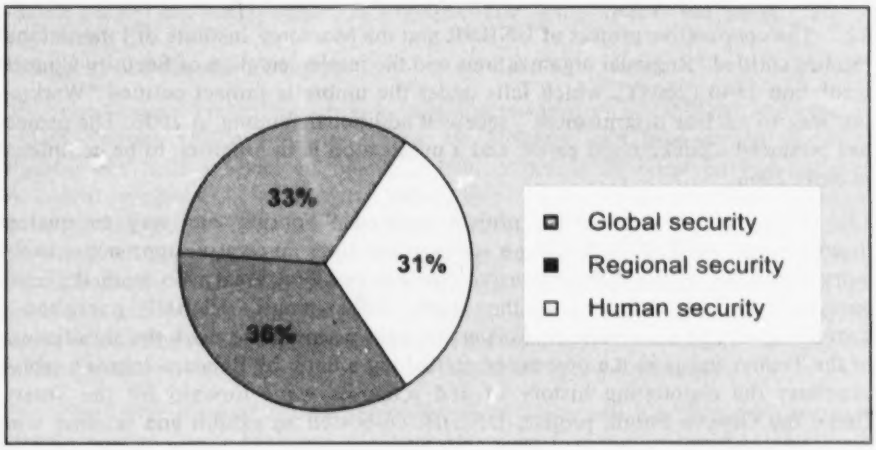
4. A subvention, used to cover the costs of the Director and administration, is necessary for the coming biennium. Such a subvention is important financially and to ensure the independence of the Institute. The subvention is currently set at $485,500 for the biennium and is cost adjusted.

5. In view of the importance of the United Nations subvention, continuing support for its increase and continuing cost adjustment are needed to facilitate growth in voluntary income. A note by the Secretary-General on the continuing need for a subvention to UNIDIR was submitted to the General Assembly at its fifty-ninth session in September 2004 (A/C.5/59/3/Add.1). In 2005, the General Assembly adopted resolution 60/89 which recommended that the Secretary-General implement the relevant recommendations of the Office of Internal Oversight Services and the decisions of the Board of Trustees of the Institute (recommending that costs of the core staff of the Institute be funded from the regular budget of the United Nations) and continue to seek ways to increase the funding of the Institute, within existing resources.

III. Recent and planned activities

6. The Institute's research programme comprises three areas: global security and disarmament; regional security and disarmament; and human security and disarmament (see figure 1).

Figure 1
UNIDIR effort by publication and category



A. Global security and disarmament

7. Much of the work of UNIDIR addresses global security and disarmament. This includes research on the implementation of treaties already agreed and on issues relevant to current or potential negotiations, as well as exploring possible avenues for progress in other domains.

1. Conference on Disarmament

8. UNIDIR continues to be actively engaged in a range of consultations, discussions and seminars on issues pertaining to the work of the Conference on Disarmament. These issues include fissile materials, nuclear disarmament, terrorism and weapons of mass destruction, security assurances and outer space security.

9. In 2007, under the six presidents initiative, UNIDIR was invited to address informal plenary discussions of the Conference on Disarmament on matters of substantive concern in order to assist Member States in their deliberations.

2. Nuclear disarmament and nuclear non-proliferation

10. Under the project entitled "Working our way to nuclear disarmament", UNIDIR held a seminar in August 2006 on negative security assurances. Speakers at the conference included: Ambassador Ousmane Camara, Permanent Representative of Senegal and President of the Conference on Disarmament; Professor Jozef Goldblat, Resident Senior Fellow; John King, Director of the Business Humanitarian Forum; and Sola Ogunbanwo, Chief Expert Adviser on the African nuclear-weapon-free zone.

11. In March 2007, UNIDIR, in partnership with the Government of France, held a seminar entitled "Challenges to international security and the non-proliferation regime on the eve of the next review cycle of the Nuclear Non-Proliferation Treaty" to discuss possible approaches and strategies for the next review cycle of the Nuclear Non-Proliferation Treaty culminating in the 2010 review conference. The

seminar was chaired by Ambassador Jürg Streuli of Switzerland, and the expert speakers were Ambassador Abdallah Baali of Algeria, and François Heisbourg and Philippe Errera of France.

12. The cooperative project of UNIDIR and the Monterey Institute of International Studies entitled "Regional organizations and the implementation of Security Council resolution 1540 (2004)", which falls under the umbrella project entitled "Working our way to nuclear disarmament", received additional funding in 2006. The project has produced a background paper, and a publication is in progress, to be completed in early 2008.

13. Also under the umbrella project entitled "Working our way to nuclear disarmament", UNIDIR is holding a series of meetings on creative approaches to the entry into force of the Comprehensive Nuclear-Test-Ban Treaty. To mark the tenth anniversary of the opening of the Treaty for signature, UNIDIR published a dedicated issue of *Disarmament Forum* and held a seminar to mark the significance of the Treaty, and is in the process of publishing a book by Rebecca Johnson which examines the negotiating history of and proposes ways forward for the Treaty. Under the Geneva Forum project, UNIDIR co-hosted an exhibit and seminar with the Comprehensive Nuclear-Test-Ban Treaty preparatory technical secretariat and the Department for Disarmament Affairs of the United Nations Secretariat in March 2007 to mark 10 years of the Comprehensive Nuclear-Test-Ban Treaty Organization and held a seminar at the 2007 Preparatory Committee for the Treaty on the Non-Proliferation of Nuclear Weapons on new opportunities for the Comprehensive Nuclear-Test-Ban Treaty.

14. UNIDIR and the Stockholm International Peace Research Institute concluded the joint pilot project entitled "Strengthening European Union cooperative threat-reduction: programming community actions in support of the European Union strategy against proliferation of weapons of mass destruction", in December 2006.

15. Over the next three years, UNIDIR will carry out a detailed study on the political and legal aspects of the bilateral agreement of 3 July 2007 between the Governments of the Russian Federation and the United States on cooperation in the field of the peaceful use of nuclear energy and multilateral approaches to the nuclear fuel cycle. The study will involve experts from the Russian Federation, the United States, Canada and other countries, from the international panel on fissile materials and the independent group of scientific experts, and from the International Atomic Energy Agency.

3. Missiles and missile defences

16. Following the inconclusive final meeting in 2004 of the panel of governmental experts on the issue of missiles in all its aspects, the General Assembly, in its resolution 59/67 of 3 December 2004 on missiles, requested the Secretary-General to prepare a report, taking into account the views expressed by Member States, to contribute to the United Nations endeavour to address the issue of missiles in all its aspects, by identifying areas where consensus can be reached, and to submit it to the General Assembly at its sixty-first session. UNIDIR worked with the Department for Disarmament Affairs to implement the resolution and drafted a report that was transmitted by the Secretary-General to the General Assembly in 2006 (A/61/168).

17. The 2007-2008 group of governmental experts on missiles in all their aspects met for the first time in June 2007. UNIDIR has again been commissioned as the consultant to the group. The first issue of *Disarmament Forum* in 2007 focused on missile control and was produced as a contribution to the work of the group.

4. Biological and chemical weapons

18. The Geneva Forum, which is a collaborative project of UNIDIR, the Quaker United Nations Office and the Project for Strategic and International Security Studies, has held a series of meetings over a period of years on the issue of biological weapons. As part of this effort, in November 2006 the Geneva Forum launched the publication *Briefing Book: Biological Weapons Convention Sixth Review Conference 2006*, prepared jointly by the Verification Research, Training and Information Centre, the British American Security Information Council and the Harvard Sussex Programme on Chemical and Biological Weapons, and produced the report of the March 2006 Geneva Forum residential meeting entitled "Meeting the challenges of reviewing the Biological and Toxin Weapons Convention".

19. The fourth issue of *Disarmament Forum* in 2006, entitled "Toward a stronger Biological and Toxin Weapons Convention", was a valuable input to the Sixth Review Conference of the Biological and Toxin Weapons Convention.

20. The year 2007 marks the tenth anniversary of the entry into force of the Chemical Weapons Convention. In December 2006, the Director of UNIDIR spoke at a seminar on the theme "Toxic chemicals and law enforcement" at the Chemical Weapons Convention Review Conference in the Hague.

21. In 2007, the Organization for the Prohibition of Chemical Weapons, the Department for Disarmament Affairs and UNIDIR are co-hosting a seminar as part of the celebrations marking the tenth anniversary of the entry into force of the Chemical Weapons Convention.

5. Space technologies and space law

22. In March 2007, in partnership with the Governments of Canada, China and the Russian Federation, and with the Secure World Foundation and the Simons Foundation, UNIDIR hosted its annual two-day conference on outer space security on the theme "Celebrating the space age: 50 years of space technology, 40 years of the Outer Space Treaty". A conference report and proceedings of the conference will be published later in 2007.

23. In November 2006, UNIDIR published the proceedings of the 2006 conference on the theme "Safeguarding space security: prevention of an arms race in outer space".

24. In May 2007, the Director of UNIDIR spoke at a Global Security Institute seminar on the theme "Weapons in space and the nuclear disarmament and non-proliferation regime" during a meeting of the Preparatory Committee for the Treaty on the Non-Proliferation of Nuclear Weapons held in Vienna.

6. Implementing treaties

25. Throughout 2006, UNIDIR, with the assistance of the Verification Research, Training and Information Centre as a consultant for the panel of governmental

experts on verification in all its aspects, including the role of the United Nations in the field of verification. The report from the study is scheduled to be issued in mid-2007.

26. In cooperation with the Monterey Institute of International Studies Centre for Non-proliferation Studies, UNIDIR is continuing a research programme begun in 2001 to study the role of regional bodies in implementing global treaties. The research, which is headed by Lawrence Scheinman and is now also being conducted under the project entitled "Working our way to nuclear disarmament", includes workshops, an international conference and a report on the modes and mechanisms of treaty implementation activities, with a new focus on Security Council resolution 1540 (2004), by regional organizations with a view to assessing the value of devolving implementation activities to regional bodies. As part of this work, UNIDIR is also cooperating with the Institute for Security Studies in South Africa in researching the next steps for the entry into force of the Pelindaba Treaty.

7. Security and disarmament thinking

27. The UNIDIR lexicon of arms control, disarmament and security terms, entitled *Coming to Terms with Security: a Lexicon for Arms Control, Disarmament and Confidence-building*, is available in Arabic, Hungarian, Korean and Spanish. In 2006-2007 it was translated into French, and this version is posted on the UNIDIR website. The Institute is currently in the process of preparing a new edition of the lexicon.

28. In the past decade, there have been several attempts to reformulate the disarmament and security agenda. The UNIDIR multi-year research project entitled "Disarmament as humanitarian action: making multilateral negotiations work" aims at rethinking and reframing the ways and means of international arms control and disarmament processes so that the focus of international efforts is on practical steps to benefit humanity. The project has produced three studies thus far, the most recent being "Thinking outside the box in multilateral disarmament and arms control negotiations" in December 2006. The drafting of a synthesis report is currently under way. The project has begun a series of workshops in collaboration with the Geneva Forum on the theme "Thinking differently about human security". The purpose of the workshops is to engage with multilateral practitioners and others on issues confronting disarmament-related efforts and to help them reframe and respond to these challenges in more creative and effective ways.

29. Bringing the private sector into efforts to prevent conflict has found increasing support in both the conflict prevention and the business communities. The UNIDIR project "Creating a new dynamic for public-private partnerships for peaceful and sustainable development: human security and equitable access to resources" aims to assess the extent to which international companies, working with Governments and civil society, can support development and security through such partnerships. The project is run in conjunction with the Economic Commission for Europe and the University of Geneva. Research questionnaires have been developed, and field research in a number of countries is taking place throughout 2007.

30. Information management and information security are two aspects of the information age that have major implications for international peace, security and disarmament. UNIDIR is planning to hold a seminar for the First Committee of the General Assembly in October 2007 to launch the third issue of *Disarmament Forum*,

which focuses on aspects of information security. A more in-depth seminar will be held in early 2008.

B. Regional security and disarmament

31. Regional security has always been a priority in the research programme of UNIDIR. Over the past years, the Institute has focused on Africa, the Middle East, Latin America, North-East Asia, South Asia and Central Asia.

1. Peacekeeping

32. In order to support peacekeeping efforts, UNIDIR has been carrying out a multi-year project entitled "Including women in disarmament, demobilization and reintegration processes through better research, training and education" in order to further the objectives of Security Council resolution 1325 (2000). This project has offered inputs into a number of peacekeeping training courses and into the United Nations integrated disarmament, demobilization and reintegration standards, a process that has helped to identify the gaps in and responses required for effective disarmament, demobilization and reintegration.

33. UNIDIR has begun a multi-year project to develop a security needs assessment protocol for use by United Nations agencies in post-conflict, post-crisis environments. The aim of the approach is to assist key post conflict development actors in assessing the needs of local communities that have been affected by conflict. The work is heavily dependent on intertwining the knowledge bases of the fields of security, conflict prevention, development and anthropology. Full-time research began in September 2006, preliminary field testing and research took place in Ghana in May 2007, and a draft protocol is being developed for further field testing in 2008.

34. In 2005, UNIDIR began a project, supported by the Marie Curie Intra-European Fellowships programme of the European Commission, to study European Union and United Nations planning for crisis management and peacebuilding. In particular, the project looks at best practices, inter-institutional learning and prospects for the United Nations Peacebuilding Commission. The second issue of *Disarmament Forum* in 2007 focuses on the Peacebuilding Commission, and UNIDIR is actively contributing to the Geneva Centre for Security Policy project on the International Geneva Peacebuilding Guide.

2. Latin America

35. As part of the contribution to security in Latin America, UNIDIR and the United Nations Regional Centre for Peace, Disarmament and Development in Latin America and the Caribbean have embarked on a multi-year collaborative project to establish a database of information on small arms and light weapons.

36. A special focus of the UNIDIR-Monterey Institute of International Studies project on the role of regional organizations in the implementation of Security Council resolution 1540 (2004) is on Latin America and Latin American regional security structures.

3. Asia and Pacific

37. The fourth issue of *Disarmament Forum* in 2007 focuses on the regional security issues of Central Asia, including border security, trafficking networks, the region's nuclear-weapon-free zone, small arms stockpile management and resource security.

38. The UNIDIR project, "International assistance for implementing the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects", is developing a mechanism to assist with matching needs and resources with respect to the implementation of the Programme of Action on the illicit trade in small arms and light weapons. The Pacific region will serve as the next test case for the mechanism.

4. Middle East

39. UNIDIR continues to explore the possibilities for a weapons-of-mass-destruction-free zone in the Middle East, and is considering the possibility of holding a conference on the issue in late 2007.

40. UNIDIR is planning a series of research meetings to explore what a regional security framework in the Middle East could entail. The research meetings will study the range, scope and geography of a possible permanent framework for security and disarmament in the region. The first meeting is planned for late 2007.

5. Africa

41. The project "International assistance for implementing the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects" conducted research in East Africa as the first test case for a mechanism to assist with matching needs and resources with respect to the implementation of the Programme of Action.

42. In August 2006, owing to the demand in the region, UNIDIR published a second edition of *Bound to Cooperate: Conflict, Peace and People in Sierra Leone*, with an updated preface. The Institute has continued with its focus on the Convention relating to Inter-State Road Transit signed by the Heads of State of the Economic Community of West African States (ECOWAS) in May 1982 and has participated in a number of meetings in West Africa in the past year, including the ECOWAS summit in June 2007.

C. Human security and disarmament

43. UNIDIR is involved in academic and policy discussions on the topic of human security. The project entitled "Disarmament as humanitarian action" has been viewed as an important contribution to the current thinking on new approaches to security; likewise, the work of UNIDIR on small arms and light weapons, explosive remnants of war and health security has made a significant contribution to the field.

1. Illicit brokering of small arms and light weapons

44. As part of a collaborative project with the Department for Disarmament Affairs and the Small Arms Survey, UNIDIR carried out a research project to study

illicit brokering and its impact on the illegal trade in small arms and light weapons. The project published its findings for the first meeting of the group of governmental experts late in 2006 and formed part of a wider consultative process to ascertain the views of States in line with General Assembly resolution 58/241 of 23 December 2003 on the illicit trade in small arms and light weapons in all its aspects.

2. Geneva Forum meetings on small arms

45. The Geneva Forum is a collaborative programme between UNIDIR, the Quaker United Nations Office and the Programme for Strategic and International Security Studies of the Geneva Graduate Institute of International Studies. Part of the Forum's work is a series of discussions at Geneva on controlling the spread of small arms and light weapons. In the past year, the Geneva Forum held five meetings of the Geneva process, a discussion forum on the implementation of the United Nations Programme of Action on the illicit trade in small arms and light weapons. The Geneva Forum has also held a number of seminars on small arms and light weapons, including on the themes "Prevention of human rights violations committed with small arms and light weapons" in August 2006, "Lessening the demand for guns: lessons from ground level" in January 2007, and "In-depth orientation for diplomats on small arms and light weapons" in May 2007, in cooperation with the United Nations Development Programme (UNDP).

3. Capacity-building for implementation of the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects

46. UNDP, the Department for Disarmament Affairs, UNIDIR and the Small Arms Survey have a continuing joint project to develop capacity in relevant countries to assist them in their reports on the implementation of the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects. In addition, UNIDIR has carried out analyses of the reports made to the Secretary-General on the implementation of the Programme of Action in order to better ascertain where capacity-building was most needed. The most recent publication, *Five Years of Implementing the United Nations Programme of Action on Small Arms and Light Weapons: Regional Analysis of National Reports*, was launched in 2006 at the first review conference of the Programme of Action.

47. The database development project of the United Nations Coordinating Action on Small Arms facilitates the collation and dissemination of information among the members of the mechanism and Member States of the United Nations and the public in general. UNIDIR has developed the country profiles section, including brief needs assessments and an inventory of relevant expertise existing in Member States that could be mobilized to provide assistance.

48. As a result of requests from Member States at the Second Biennial Meeting of States to Consider the Implementation of the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects, held in 2005, and the Preparatory Committee for the first review conference of the Programme of Action, UNIDIR has carried out research to assess the level of financial and technical assistance requested and given for the implementation of the Programme of Action. The first set of results, issued in the publication *International Assistance for Implementing the Programme of Action to*

Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects, was presented at the first review conference of the Programme of Action in 2006. An interactive website is under development to help connect States in need of assistance with donor States.

4. Preparing for an arms trade treaty

49. In April 2007, the Geneva Forum held a seminar on the theme "Getting off to a good start on an arms trade treaty: States' submissions to the United Nations Secretary-General", in which the issues pertaining to a future arms trade treaty were explored. Through its two-part study entitled "Analysis of States' views on an arms trade treaty", UNIDIR is compiling and analysing views of Member States submitted under General Assembly resolution 61/89. The first part of the study comprises a statistical analysis of the views submitted by Member States and a more detailed exploration of the different approaches to the arms trade treaty and their implications. This analysis will be presented to the First Committee at the sixty-second session of the General Assembly. The second part of the study will offer an in-depth analysis of the elements required for an arms trade treaty; its findings will be presented at expert meetings and to the Secretary-General's Group of Governmental Experts, scheduled to convene in 2008.

5. Landmines and other explosive remnants of war

50. In 2006, UNIDIR carried out a field research project for UNDP, the United Nations Mine Action Service and the United Nations Children's Fund (UNICEF) on the impact of cluster munitions. A report based on that research entitled "Cluster munitions in Albania and the Lao People's Democratic Republic: the humanitarian and socio-economic impact", was published in September 2006. The final issue of *Disarmament Forum* in 2006 also focuses on cluster munitions.

51. Work on cluster munitions continues with the project entitled "The humanitarian impact of cluster munitions", which will publish its findings in the second part of 2007.

52. The Geneva Forum has held a number of informal brainstorming discussions on the way forward on cluster munitions, plus a seminar on the theme "Mine action and development" in July 2007 in cooperation with the Geneva International Centre for Humanitarian Demining.

6. Preventing the spread of weapons to non-State armed groups

53. During the past decade, there has been an increasing awareness of the dangers posed by international terrorism and the activities of non-State armed groups. Many Governments have put in place stronger national measures to prevent the illicit diversion of weapons, and States have also operated at the regional and international levels to put in place multilateral measures to counter the problem. However, there is no overarching approach for the prevention of such transfers to non-State armed groups. UNIDIR will host a seminar to consider the wider aspects of preventing the spread of weapons to non-State armed groups and to develop ideas on further action for a more integrated approach.

7. International humanitarian law, human rights law and security

54. In June 2007, UNIDIR, the Programme for the Study of International Organization(s) of the University of Geneva and Geneva Call held a two-day expert workshop on the theme "Exploring criteria and conditions for engaging armed non-State actors to respect humanitarian law and human rights law". The proceedings of the conference will be published later in 2007.

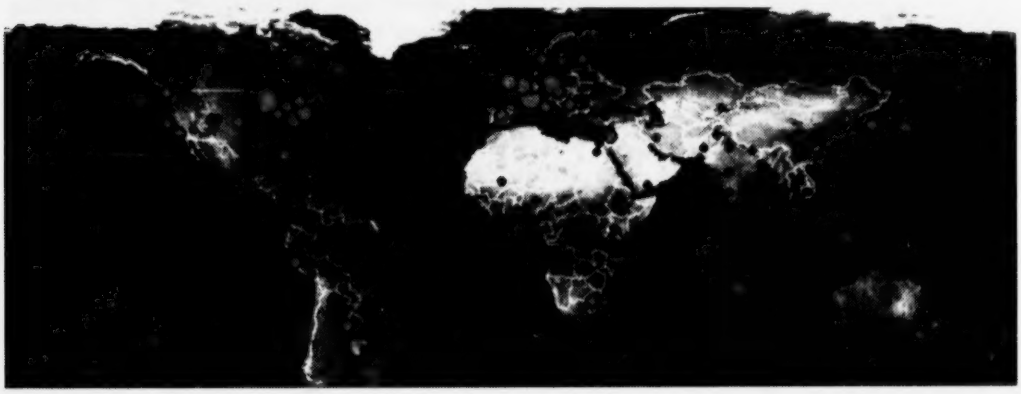
IV. Networking

55. One of the main functions of UNIDIR is to cooperate actively with specialized agencies, organizations and institutions of the United Nations system and with other organizations active in the field of disarmament. The Institute also has a number of formal and informal programmes and working arrangements with a wide selection of institutes, centres and universities.

A. Electronic networking

56. *Disarmament Insight*, a collaborative effort of the project entitled "Disarmament as humanitarian action: making multilateral negotiations work" and the Geneva Forum, was launched in April 2007. This is an innovative outreach mechanism providing web-based resources, including a research blog, in which new material is posted every few days on a variety of themes, as well as links to audio presentations (podcasts) given at *Disarmament Insight* workshops. In just over two months, the *Disarmament Insight* website had received almost 4,000 visitors (see figure 2). In addition, an increasing number of other websites and blogs are linking to the site. These include the Arms Control Association, the David Davies Memorial Institute of International Studies of the University of Wales at Aberystwyth and the International Campaign to Abolish Nuclear Weapons. A number of other entities have run features about *Disarmament Insight*, including the International Action Network on Small Arms, the International Campaign to Ban Landmines and the Cluster Munition Coalition.

Figure 2
Distribution of interest in *Disarmament Insight*



B. *Disarmament Forum*

57. UNIDIR publishes a bilingual quarterly journal, *Disarmament Forum*, which is now in its ninth year of publication. Each issue addresses a theme related to security and disarmament. There are papers by experts focusing on the theme and shorter articles on other subjects. Each issue is available online in its entirety and provides summaries of current UNIDIR research projects and recent publications. Full-text *Disarmament Forum* articles are also now available through the International Relations and Security Network.

C. Education for disarmament

58. In 2006, on the occasion of the 40th Montreux Jazz Festival, UNIDIR ran a workshop at the festival on the theme of "Artists as peacemakers" with the International Committee of Artists for Peace and Soka Gakkai International. The two speakers were the Director of UNIDIR and musician Herbie Hancock.

59. For the past three years, the Geneva Forum has held annual day-long workshops to introduce disarmament and security issues to newly arrived diplomats in Geneva. The most recent, on the theme "Disarmament and arms control in Geneva: an orientation for new diplomats", was held in January 2007.

60. UNIDIR has been contributing to the development by the United Nations Institute for Training and Research (UNITAR) of a proposed series of training seminars on the theme "Nuclear disarmament and non-proliferation: foundations of human security". The seminars, which are under development by the UNITAR Hiroshima Office for Asia and the Pacific, will target national representatives to the Security Council and the Conference on Disarmament, national policymakers in security matters nominated by Member States from the region, diplomats stationed in the region and selected representatives from research institutes, civil society and academia.

D. Conferences, seminars and discussion meetings

61. UNIDIR holds a range of different types of research meetings, both in Geneva and in different regions around the world. The meetings are held with the purpose of examining issues of security, arms control and disarmament, and fostering cooperation with and among research institutes in the areas concerned. The Geneva Forum has held 17 meetings in the past year on a wide range of issues, such as conflict goods, global security, biological weapons, small arms and explosive remnants of war. UNIDIR has held 10 conferences and workshops in Geneva, New York and Vienna over the past year. UNIDIR strives for gender balance when selecting speakers and experts for its conferences.

E. Collaboration with other institutions

62. UNIDIR has continued to increase the number of institutes with which it collaborates for research projects and meetings. In addition, in 2007, UNIDIR became a principal partner of the International Relations and Security Network and is contributing UNIDIR publications to the ISN Publishing House.

F. Fellowship programme and young researchers programme

63. The UNIDIR fellowship programme brings visiting research fellows to Geneva for a period of from one to six months. The programme aims to provide training for researchers from developing States and allow them to interact with each other and with researchers from developed States and with the Secretariat of the United Nations, delegations and non-governmental institutes, and to increase the quality of the work of the Institute, thereby enhancing the utility of UNIDIR to Governments and institutes. The Institute's increasingly competitive young researcher programme brings young researchers from all over the world to work at UNIDIR for short periods. In the period 2006-2007, UNIDIR hosted 11 young researchers from six different countries. The Institute also hosts junior professional officers. Most of those partnerships are based on agreements that recognize UNIDIR as a legitimate provider of training for university students. This means that students who participate in the programme can obtain university credits for their work at UNIDIR.

V. Publications

64. UNIDIR is preparing a large number of publications for the coming months. They include the quarterly journal, *Disarmament Forum*, and books and research reports.

65. From July 2006 to June 2007, UNIDIR issued the following publications:

Developing a Mechanism to Prevent Illicit Brokering in Small Arms and Light Weapons: Scope and Implications, in cooperation with the Small Arms Survey and the Department for Disarmament Affairs

International Assistance for Implementing the Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All Its Aspects — Findings of a Global Survey, by Kerry Maze and Sarah Parker

Thinking Outside the Box in Multilateral Disarmament and Arms Control Negotiations, by John Borrie and Vanessa Martin Randin (eds.)

European Action on Small Arms and Light Weapons and Explosive Remnants of War, Final Report, in cooperation with the European Union

Cluster Munitions in Albania and the Lao People's Democratic Republic: The Humanitarian and Socio-economic Impact, by Rosy Cave, Anthea Lawson and Andrew Sherriff

Building the Architecture for Sustainable Space Security, Conference Report, 30-31 March 2006, in cooperation with the Simons Foundation and the Governments of Canada, China and the Russian Federation

Costs of Disarmament: Cost Benefit Analysis of SALW Destruction versus Storage, by Mandy Turner, in cooperation with the South Eastern and Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons and the University of Bradford

Bound to Cooperate: Conflict, Peace and People in Sierra Leone, 2nd edition, by Anatole Ayissi and Robin-Edward Poulton (eds.)

Disarmament as Humanitarian Action: From Perspective to Practice, John Borrie and Vanessa Martin Randin (eds.)

Five Years of Implementing the United Nations Programme of Action on Small Arms and Light Weapons: Regional Analysis of National Reports, by Elli Kytömäki and Valerie Anne Yankey-Wayne, in cooperation with UNDP, the Department for Disarmament Affairs and the Small Arms Survey

From Research to Road Map: Learning from the Arms for Development Initiative in Sierra Leone, by Derek Miller, Daniel Ladouceur and Zoe Dugal

Safeguarding Space Security: Prevention of an Arms Race in Outer Space, Conference Report, 21-22 March 2005, in cooperation with the Simons Foundation and the Governments of China and the Russian Federation

Comparative Analysis of Evaluation Methodologies in Weapon Collection Programmes, by Shukuko Koyama

Common Security in Outer Space and International Law, by Detlev Wolter

Disarmament Forum

No. 2 (2006) CTBT: Passing the Test

No. 3 (2006) Toward a Stronger BTWC

No. 4 (2006) Cluster Munitions

No. 1 (2007) Missile Control?

No. 2 (2007) The Peacebuilding Commission

66. Figures 3 and 4 show the distribution of UNIDIR publications in 2006 by group and region.

Figure 3
Distribution of UNIDIR publications, by group (2006)

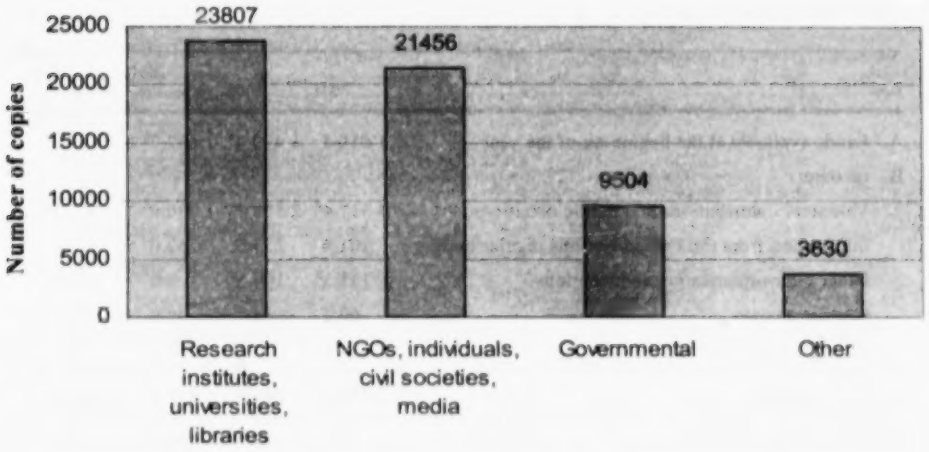
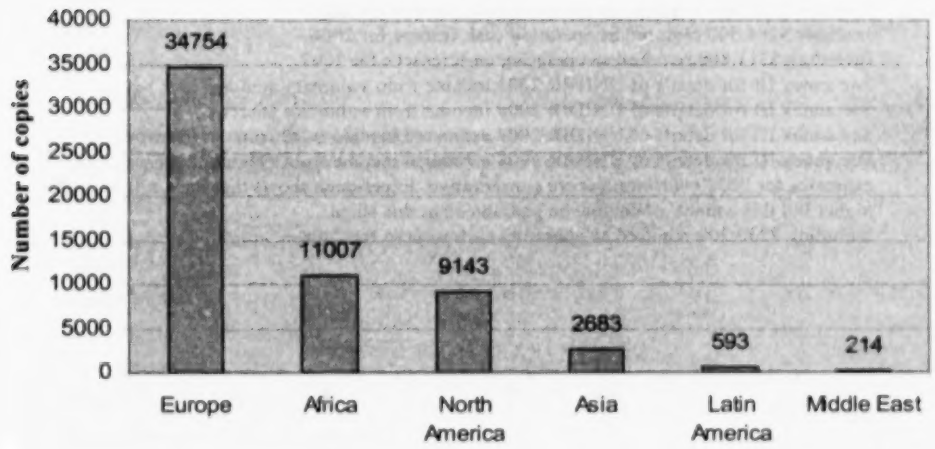


Figure 4
Distribution of UNIDIR publications, by region (2006)



67. Having conducted this analysis, UNIDIR is taking steps to address the weak distribution of its publications in Asia, Latin America and the Middle East. Efforts over the previous two years to increase readership of UNIDIR publications in Africa have had a positive effect. These efforts can be learned from, improved upon and applied to other regions.

Annex I

Income and expenditure for 2005 and 2006 and estimates for 2007 and 2008

(Thousands of United States dollars)

Item	*2005*	*2006*	*2007 (estimates)*	*2008 (estimates)*
A. Funds available at the beginning of the year	1 910.5	1 499.4[a]	1 667.7[b]	1 133.0[c]
B. Income:				
Voluntary contributions and public donations	3 317.4[d]	2 558.7[e]	1 930.9[f]	862.1[g]
Subvention from the United Nations regular budget	201.4	223.5	262.0	234.1
Other inter-organization contributions	155.3[d]	194.5[e]	8.0[f]	20.0[g]
Interest income	60.2	54.4	40.0	30.0
Miscellaneous income	1.1	13.7	0.0	0.0
Total income	**3 735.4**	**3 044.8**	**2 240.9**	**1 146.2**
C. Prior period adjustments	0.0	(0.1)	0.0	0.0
D. Prior period obligations	0.0	14.6	0.0	0.0
E. Total funds available	5 645.9	4 558.7	3 908.6	2 279.2
F. Expenditure	4 146.5	2 891.0	2 775.6	1 909.1
G. Fund balance at the end of the year	1 499.4[a]	1 667.7[b]	1 133.0[c]	370.1[h]

[a] Includes $299,000 required as operating cash reserve for 2005.
[b] Includes $284,500 required as operating cash reserve for 2006.
[c] Including $311,800 required as operating cash reserve for 2007.
[d] See annex III for details of UNIDIR 2005 income from voluntary sources.
[e] See annex III for details of UNIDIR 2006 income from voluntary sources.
[f] See annex III for details of UNIDIR 2007 estimated income from voluntary sources.
[g] See annex III for details of UNIDIR 2008 estimated income from voluntary sources. The estimates for 2008 contributions are conservative. Experience shows that they will be much higher but this cannot, of course, be guaranteed at this stage.
[h] Including $230,300 required as operating cash reserve for 2008.

Annex II

Resource requirements

(Thousands of United States dollars)

Resource requirements	*2005 (1)*	*2006 (2)*	*2007[a] (estimates) (3)*	*2008[a] (estimates) (4)*	*Increase/ decrease (4-3)*
A. Direct administrative costs					
Salaries and related staff costs	572.8	663.7	587.2	722.4	135.2
General temporary assistance	73.9	17.4	33.0	0.0	(33.0)
Temporary assistance for meetings	0.0	0.8	7.0	0.0	(7.0)
Consultants' fees and travel	102.8	112.7	168.2	83.0	(85.2)
Ad hoc expert groups	97.0	112.1	205.4	94.0	(111.4)
Personal service contract	2 956.0	1 714.6	1 482.3	844.2	(638.1)
Official travel of staff	108.9	96.7	118.8	51.0	(67.8)
Training	0.3	0.0	4.0	4.0	0.0
Contractual services	3.3	1.9	4.0	4.0	0.0
Hospitality	8.7	10.4	13.5	6.0	(7.5)
Premises: rental and maintenance	0.1	0.9	5.0	2.0	(3.0)
Rental of office equipment	0.6	6.6	3.7	3.7	0.0
Rental of conference service equipment	0.0	1.2	0.0	0.0	0.0
Maintenance costs	0.0	1.1	0.0	0.0	0.0
Bank charges	1.1	0.6	0.0	0.0	0.0
Communication	0.2	0.0	2.0	1.0	(1.0)
Acquisition of office equipment	3.4	6.2	7.8	2.8	(5.0)
Acquisition, software packages	1.7	0.0	2.0	0.0	(2.0)
Replacement, EDP equipment	0.5	0.2	0.0	0.0	0.0
Other supplies	0.0	0.2	0.0	0.0	0.0
Acquisition printing and publishing equipment	0.5	0.0	0.0	0.0	0.0
Acquisition of fax	0.9	0.0	0.0	0.0	0.0
Stationary and office supplies	0.8	0.0	0.0	0.0	0.0
Data processing supplies	0.3	0.0	0.0	0.0	0.0
Paper for internal reproduction	-0.5	9.6	10.0	10.0	0.0
Subscriptions and standing orders	1.0	1.0	1.2	1.2	0.0
Loss or gain on exchange	27.7	0.0	0.0	0.0	0.0
Total A	**3 962.0**	**2 757.9**	**2 655.1**	**1 829.3**	**(825.8)**
B. Programme support costs (5 per cent of total A, less United Nations subvention)	184.5	133.1	119.7	79.8	(39.9)
Total expenditure (Total A + B)	**4 146.5**	**2 891.0**	**2 774.8**	**1 909.1**	**(865.7)**

Resource requirements	*2005 (1)*	*2006 (2)*	*2007[a] (estimates) (3)*	*2008[a] (estimates) (4)*	*Increase/ decrease (4-3)*
C. Operating cash reserve (15 per cent of expenditure on contributions other than from the European Union, less United Nations subvention, and 5 per cent on contributions from the European Union)	299.0	284.5	311.8	230.3	(81.5)
Grand total A + B + C	**4 445.5**	**3 175.5**	**3 086.6**	**2 139.4**	**(947.2)**

[a] These figures may be increased upon the confirmation of current funding proposals.

A. Direct programme and administrative costs for 2008

Pending approval of current fund-raising applications, the provisions made for research programmes and administrative costs are minimal. However, they will be increased as funding comes forward.

Salaries and related staff costs: $722,400. These estimated requirements are needed to cover the salaries and related staff costs of UNIDIR regular staff. In 2008 the regular staff will consist of the Director (D-2), the Deputy Director (D-1) and two General Service staff. The total estimated requirements under this heading are based on the standard salary costs applicable to Geneva (version 7) and reflect an increase of $135,200 over the 2007 revised requirements because the Deputy Director's post was budgeted for only four months in 2007.

General temporary assistance: no requirements for 2008. This represents a decrease of $33,000 over the 2007 requirements, which represented temporary assistance for the project on strategy for European action on small arms, light weapons and explosive remnants of war.

Temporary assistance for meetings: no requirements for 2008. This represents a decrease of $7,000 over the 2007 requirements.

Consultants' fees and travel: $83,000. This provision will be needed to hire the services of a professional designer for the cover pages of UNIDIR publications ($5,000) and for editing of UNIDIR publications ($15,000). In addition, these estimates include consultancies for the study on entry into force of the Comprehensive Nuclear-Test-Ban Treaty ($30,000) and the security needs assessment protocol ($38,000). They represent a decrease of $85,200 over the 2007 estimated requirements.

Ad hoc expert groups: $94,000. This provision, reflecting a decrease of $111,400 over the 2007 budget requirements, will be needed to cover the travel expenses of experts participating in the expert group meetings for the project on entry into force of the Comprehensive Nuclear-Test-Ban Treaty ($13,000), security needs assessment protocol ($41,000) and the 2008 Conference on Outer Space.

Personal service contracts: $844,200. This provision will be needed to extend the contracts of the in-house staff working on recurrent projects. In 2000, these contracts have been brought into line with regular United Nations contracts, and in 2001 the related posts were graded by the Office of Human Resources Management

of the United Nations Office at Geneva. In 2002, the salaries were increased to bring net salaries in line with the related gradings. The estimated requirements reflect a decrease of $638,100 over the 2007 revised requirements, as several projects are coming to an end in 2007.

Official travel of staff: $51,000. The estimated requirements for travel of staff in 2008 reflect a decrease of $67,800 over the revised 2007 revised estimates and will be used mainly for the security needs assessment project. Other project-related travel will be added if funds are received for this purpose. The Director and members of the staff receive invitations to conferences and seminars, which have to be declined because of the limited travel budget of UNIDIR. On the other hand, they also receive a number of invitations where the costs are covered by the host institution. Such travel will, at times, be combined with UNIDIR missions, thereby reducing costs to the Institute. Travel for fund-raising purposes will, as far as possible, be combined with travel for other purposes.

Other specialized training: $4,000. This provision, reflecting no change over the revised 2007 budget requirements, will be needed to train UNIDIR staff on new software.

Other contractual services: $4,000. This provision, reflecting no change over the 2007 budget requirements, will be needed to extend and expand the existing contractual services for the website and services related to data-processing equipment.

Hospitality: $6,000. The estimated requirements for hospitality in 2008 reflect a decrease of $7,500 over the 2007 revised estimates and will be used mainly to cover hospitality extended to participants at UNIDIR seminars.

Premises: rental and maintenance: $2,000. This provision, reflecting a decrease of $3,000 over the 2007 requirements, will be used to cover the rental of conference rooms for seminars to be held in 2008.

Rental of office equipment: $3,700. These estimated requirements, reflecting no change over the 2007 revised estimates, will be needed to pay for the rental of a fax machine and printers.

Communication: $1,000. This provision, reflecting a decrease of $1,000 over the 2007 revised estimates, will be used to extend the current Nomadic facilities.

Acquisition of office equipment: $2,800. This provision will be used to purchase new printers. It reflects a decrease of $5,000 over the 2007 resource requirements.

Paper for internal reproduction: $10,000. The estimated requirements under this heading will be used to purchase paper for the production of *Disarmament Forum*. They reflect no change over the 2007 revised requirements.

Subscription and standing orders: $1,200. This provision, reflecting no change over the 2007 resource requirements, will be used to extend current subscriptions.

B. Programme support costs

A provision of $79,800, representing 5 per cent of the total estimated expenditure less the amount of the United Nations regular budget subvention of $234,100, will be needed for programme support costs in 2008.

C. Operating cash reserve

In compliance with administrative instruction ST/AI/284, an amount of $230,300 will be kept as operating cash reserve. It represents 15 per cent of the total 2008 estimated expenditure funded from extrabudgetary resources, except for the expenditure funded by the European Commission, for which it represents 5 per cent.

Annex III

Voluntary contributions for UNIDIR for 2005 and 2006 and current status for 2007 and 2008

(United States dollars)

Voluntary contribution	*2005*	*2006*	*2007[a]*	*2008[a]*
A. Governmental contributions				
Austria	10 954	82 898	40 000	0
Canada	0	75 862	104 066	0
China	30 000	0	35 000	35 000
Egypt	5 176	0	0	0
Finland	23 529	23 669	53 800	0
France	333 000	333 000	300 000	300 000
Greece	7 800	0	0	0
India	0	0	5 000	0
Ireland	0	0	10 000	0
Israel	9 918	0	19 000	10 000
Japan	0	0	30 000	30 000
Luxembourg	3 049	5 974	6 485	6 000
Mexico	20 000	20 000	20 000	20 000
Netherlands	53 760	137 964	138 560	0
New Zealand	17 750	12 769	10 000	10 000
Norway	585 801	860 129	230 000	139 000
Republic of Korea	10 000	30 000	20 000	20 000
Russian Federation	0	49 974	100 000	100 000
Spain	0	0	7 000	0
Sweden	25 571	280 255	280 255	0
Switzerland	60 000	85 663	78 566	60 000
Turkey	5 000	0	0	0
United Kingdom of Great Britain and Northern Ireland	125 310	0	41 200	0
United States of America	0	43 400	40 000	0
Total governmental contributions	**1 326 618**	**2 041 557**	**1 568 932**	**730 000**
B. Public donations				
European Commission	1 777 525	448 718	288 209	65 520
European Science Foundation	932	0	0	0
Graduate Institute for International Studies	55 660	1 922	6 560	0
Marie Curie Foundation	129 671	0	0	66 594
Miscellaneous	0	955	0	0
Simons Foundation	27 000	26 154	17 213	0
University of Geneva	0	39 394	50 000	0

Voluntary contribution	*2005*	*2006*	*2007*[a]	*2008*[a]
Total public donations	**1 990 788**	**517 143**	**361 982**	**132 114**
Total voluntary contributions (A + B)	**3 317 406**	**2 558 700**	**1 930 914**	**862 114**
C. Inter-organization				
SEESAC (UNDP-Belgrade)	34 260	0	0	0
Department for Disarmament Affairs	10 000	95 000	8 000	20 000
UNDP	73 152	94 483	0	0
UNICEF	0	5 000	0	0
United Nations Mine Action Service	37 920	0	0	0
Total inter-organization	**155 332**	**194 483**	**8 000**	**20 000**
Grand total (A + B + C)	**3 472 738**	**2 753 183**	**1 938 914**	**882 114**

[a] These figures will be increased upon the confirmation of current funding proposals.

Annex IV

Current status of 2007 estimated income from voluntary sources

(United States dollars)

Donor	Total amount of contributions	To be used for: Special project	To be used for: Other purposes (including administrative costs)
A. Governmental contributions			
Austria[a]	40 000	32 000	8 000
Canada[b]	104 066	83 253	20 813
China[c]	35 000	28 000	7 000
Finland[d]	53 800	43 040	10 760
France[e]	300 000	30 000	270 000
India[f]	5 000	4 000	1 000
Ireland	10 000	8 000	2 000
Israel[g]	19 000	15 200	3 800
Japan[h]	30 000	24 000	6 000
Luxembourg	6 485	5 188	1 297
Mexico	20 000	16 000	4 000
Netherlands[i]	138 560	110 848	27 712
New Zealand	10 000	8 000	2 000
Norway[j]	230 000	184 000	46 000
Republic of Korea	20 000	16 000	4 000
Russian Federation	100 000	80 000	20 000
Spain[f]	7 000	5 600	1 400
Sweden[k]	280 255	224 204	56 051
Switzerland[l]	78 566	62 853	15 713
United Kingdom of Great Britain and Northern Ireland[m]	41 200	32 960	8 240
United States of America[a]	40 000	32 000	8 000
Total governmental contributions	**1 568 932**	**1 045 146**	**523 786**
B. Public donations			
European Commission[n]	288 209	259 388	28 821
Graduate Institute for International Studies	6 560	5 248	1 312
Simons Foundation[o]	17 213	13 770	3 443
University of Geneva[p]	50 000	40 000	10 000
Total public donations	**361 982**	**318 407**	**43 576**
Total voluntary contributions A + B	**1 930 914**	**1 363 552**	**567 362**

Donor	*Total amount of contributions*	*To be used for*	
		Special project	*Other purposes (including administrative costs)*
C. Inter-organization			
Department for Disarmament Affairs[q]	8 000	6 400	1 600
UNDP		0	0
Total Inter-organization	**8 000**	**6 400**	**1 600**
Grand total (A + B + C)	**1 938 914**	**1 369 952**	**568 962**

[a] For the project entitled "International assistance for implementing the United Nations Programme of Action on Small Arms".

[b] For the Conference on the Peaceful Use of Outer Space — 2007 and for the project entitled "International assistance for implementing the United Nations Programme of Action on Small Arms".

[c] For the Conference on the Peaceful Use of Outer Space — 2007.

[d] For a study entitled "Arms trade treaty: analysis of reports submitted by States to the Secretary-General".

[e] For the costs of the Deputy Director of UNIDIR and for seminars to be held during 2007.

[f] For the seminar on the theme "Preventing the spread of weapons to non-State armed groups".

[g] $9,000 for the seminar on the theme "Preventing the spread of weapons to non-State armed groups".

[h] For the project entitled "The entry into force of the CTBT: new opportunities?"

[i] For the security needs assessment protocol and for a seminar on the theme "Preventing the illicit trade in small arms and light weapons: the role of brokers".

[j] $30,000 for the project entitled "The entry into force of the CTBT: new opportunities?".

[k] For the Security Needs Assessment Protocol.

[l] $19,166 for the project entitled "Creating a new dynamic for public-private partnerships for peaceful and sustainable development: human security and equitable access to resources"; and $11,000 for the project entitled "The humanitarian impact of cluster munitions".

[m] $34,200 for the study entitled "The arms trade treaty: analysis of reports submitted by States to the Secretary-General" and $7,000 for the seminar on the theme "Preventing the spread of weapons to non-State armed groups".

[n] $65,520 for the project entitled "European Union and United Nations planning for crisis management and peacebuilding: promoting best practice and inter-institutional learning"; $56,657 for the project entitled "Reinforcing European Union cooperative threat reduction programme: community action in support of the European Union strategy against the proliferation of weapons of mass destruction"; and $166,032 for the project entitled "European action on small arms, light weapons and explosive remnants of war".

[o] For the Conference on the Peaceful Use of Outer Space — 2007.

[p] For the project entitled "Creating a new dynamic for public-private partnerships for peaceful and sustainable development: human security and equitable access to resources".

[q] For consultancy for the Group of Governmental Experts on Missiles in all its Aspects.

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Review and implementation of the Concluding Document of the Twelfth Special Session of the General Assembly

United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific

Report of the Secretary-General

Summary

The present report contains an account of the activities undertaken by the Regional Centre for Peace and Disarmament in Asia and the Pacific during the period from August 2006 to July 2007. The wide political support received from Member States and academic institutions within and outside the region has reaffirmed the role played by the Centre in fostering dialogue and cooperation in the field of disarmament and security in the region.

During the reporting period, the Centre continued to promote disarmament and security dialogue through the organization of conferences in the Asia and the Pacific region. Such conferences were organized in Yokohama, Japan, and Jeju Island, Republic of Korea. Until mid-September 2006, the Centre continued to provide substantive support to the five Central Asian States in connection with the establishment of a nuclear-weapon-free zone in Central Asia and to Mongolia in taking the necessary measures to consolidate and strengthen its international security and nuclear-weapon-free status. The Centre also continued to encourage the implementation of the recommendations of the United Nations study on disarmament and non-proliferation education, as well as the implementation of United Nations Security Council resolution 1540 (2004).

The United Nations Office for Disarmament Affairs has continued consultations with the Government of Nepal on the relocation of the Centre. On 13 July 2007, the Office was informed by the Government of Nepal of its concurrence with the draft host country agreement and the related memorandum of understanding and its readiness to sign the two documents. A signing ceremony subsequently took place at United Nations Headquarters on 20 July 2007.

* A/62/150.

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I. Introduction

1. In paragraphs 5, 6 and 7 of resolution 61/94, the General Assembly requested the Secretary-General to provide the United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific with the necessary support, within existing resources, in carrying out its programme of activities; urged him to complete, without any further delay, the internal procedure for finalizing the host country agreement and the related memorandum of understanding and to ensure the physical operation of the Regional Centre from Kathmandu within six months of the date of signature of the host country agreement and to enable the Centre to function effectively; and requested him to report to the Assembly at its sixty-second session on the implementation of the resolution.

2. The report covers the activities of the Centre during the period from August 2006 to July 2007. A financial statement on the status of the Trust Fund for the Regional Centre covering the year 2006 is contained in annex I. A list of planned activities of the Centre for which financial support from interested donors is being sought appears in annex II. In addition to the Trust Fund for the Regional Centre, activities of the Centre may be funded from voluntary contributions to other disarmament trust funds managed by the United Nations Office for Disarmament Affairs.

II. Activities of the Centre

3. The United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific continued to enjoy the strong support of Member States and academic institutions within and outside the region for its role in encouraging regional and subregional dialogue for the enhancement of openness, transparency and confidence-building and the promotion of disarmament and security. The regional meetings on various disarmament and security-related issues organized by the Centre have been highly commended by the General Assembly and the Asia and the Pacific community.

4. During the reporting period, the Centre organized, within the limited financial resources available through voluntary contributions of Member States and other interested organizations, a number of conferences, as described below.

A. Regional dialogue to address challenges in the field of disarmament and non-proliferation

5. The Centre has promoted regional dialogue aimed at identifying pressing disarmament and security-related needs relevant to the region and at encouraging region-oriented initiatives through the organization of meetings and conferences in the Asia and the Pacific region and by other means. The value of the dialogue has been acknowledged in General Assembly resolutions and strong support has been expressed by Member States and academic groups within and outside the region for its continuation as a way of exchanging data and information and exploring further collaboration for joint activities related to disarmament and security in the Asia and the Pacific region.

6. From 21 to 23 August 2006, the Centre organized, in Yokohama, Japan, in cooperation with the Government of Japan and the city of Yokohama, the eighteenth United Nations Conference on Disarmament Issues, on the theme "Alarming nuclear proliferation crisis and regional and international peace and security". Approximately 50 participants from Governments, academic institutions, the media, international and regional organizations and non-governmental organizations (NGOs) participated in the Conference. The Yokohama Conference considered, inter alia, the problems and challenges affecting the nuclear non-proliferation regime; issues relating to compliance, verification, the nuclear fuel cycle and the peaceful use of nuclear energy; the nuclear programmes of the Democratic People's Republic of Korea and the Islamic Republic of Iran; and the nuclear black market. Nuclear issues affecting the Middle East, including the renouncement by the Libyan Arab Jamahiriya of its weapons of mass destruction programme, were also discussed.

7. The participants highly commended the Conference as a useful contribution to the encouragement and promotion of disarmament and non-proliferation dialogue within and outside the Asia and the Pacific region. It provided participants with an opportunity to identify priorities in the field of weapons of mass destruction. The Conference was also useful in preparing the ground for the Preparatory Committee for the 2010 Review Conference of the Parties to the Treaty on the Non-Proliferation of Nuclear Weapons.

8. From 13 to 15 December 2006, the Centre and the Republic of Korea jointly organized, in Jeju Island, Republic of Korea, a conference on disarmament and non-proliferation issues on the theme, "Beyond the stalemate: revitalizing efforts to curb the proliferation of weapons of mass destruction and their means of delivery".

9. The fifth in a series of such annual regional disarmament conferences, it was attended by approximately 30 participants from Governments, academic and research institutions and international and regional organizations, as well as NGOs, mainly from the Asia and the Pacific region. The Jeju Island conference dealt with, inter alia, threats and challenges to the disarmament and non-proliferation regime in the global and regional contexts of North-East Asia; the erosion of confidence in the effectiveness of the Non-Proliferation Treaty; the threat of terrorism by means of weapons of mass destruction; non-compliance with Security Council resolutions and the recommendations of the International Atomic Energy Agency (IAEA); multilateral approaches to sensitive areas of the nuclear fuel cycle; and the strengthening of export controls.

10. Pursuant to requests by the General Assembly contained in its resolutions 52/38 S, 53/77 A, 55/33 W and 57/69 and to Assembly decisions 54/417, 56/412, 58/518, 59/513 and 60/516, the Centre continued to assist the five Central Asian States in connection with the establishment of a nuclear-weapon-free zone in Central Asia. On 8 September 2006, the Ministers for Foreign Affairs of the five Central Asian States signed, in Semipalatinsk, Kazakhstan, the Central Asian Nuclear-Weapon-Free Zone Treaty.

11. In its resolution 59/73, on Mongolia's international security and nuclear-weapon-free status, the General Assembly requested the Secretary-General to continue to provide assistance to Mongolia in taking the necessary measures to consolidate and strengthen its nuclear-weapon-free status. In this connection, the Centre held consultations with Mongolia in August and September 2006 to assist it

in preparing a report on developments relating to the consolidation of its nuclear-weapon-free status.

B. Cooperation with regional and intergovernmental organizations and other relevant actors

12. The Centre maintained cooperation with regional and intergovernmental organizations, including the Pacific Island Forum and the Association of Southeast Asian Nations (ASEAN), as well as with academic institutions and NGOs in the Asia and the Pacific region, by inviting them to participate in meetings organized by the Centre on security and disarmament issues. The Centre participated in a workshop on the implementation of Security Council resolution 1540 (2004) organized by the ASEAN Regional Forum and held in San Francisco, United States of America, from 13 to 15 February 2007. The issues discussed by participants at the workshop were highlighted in the summary report of the co-Chair. They included key elements of resolution 1540 (2004) and the important role of regional organizations, national plans and national experiences in the implementation of the resolution, as well as next steps. On the margins of the meeting, the Centre held consultations with some South Pacific States on organizing a follow-up subregional seminar on the implementation of Security Council resolution 1540 (2004) in the South Pacific.

13. With respect to disarmament and non-proliferation education, in the course of 2007 the Centre held consultations with ASEAN member States, Central Asian States and South Pacific States to assist them in building capacity for the implementation of the recommendations contained in the United Nations study on disarmament and non-proliferation education.

14. During the reporting period, the Centre invited disarmament-related international organizations, including IAEA, the secretariat of the Organization for the Prohibition of Chemical Weapons and the secretariat of the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization, to participate in a number of the conferences that it organized, with a view to sharing expertise among participants.

C. Cooperation with non-governmental organizations and academic institutions

15. In the period under review, the Centre invited the members of the Council for Security Cooperation in the Asia Pacific (CSCAP) to participate in conferences and workshops that it organized. Further, a representative of the Centre attended the Council's third meeting of experts dealing with export control and the implementation of Security Council resolution 1540 (2004), which was held in Tokyo from 8 to 10 February 2007, and made introductory remarks on the resolution. The Centre also participated in the work of the CSCAP Study Group on Countering the Proliferation of Weapons of Mass Destruction in the Asia Pacific, which met in San Francisco, United States, from 11 to 13 February 2007. The Centre made a presentation highlighting the role of the United Nations Office for Disarmament Affairs in assisting the Committee established pursuant to resolution 1540 (2004) and the engagement of the Office in outreach activities and capacity-

building for the implementation of resolution 1540 (2004). The participation of the Centre in both meetings helped it to better understand the needs of the States in the Asia and the Pacific region.

16. On 21 and 22 June 2007, the Centre participated in the Sixth North Asian Regional Meeting of International Physicians for the Prevention of Nuclear War, co-hosted by the Mongolian chapter of that organization and by Blue Banner, another Mongolian NGO, in Ulaanbaatar. The meeting focused on Mongolia's nuclear-weapon-free status, the long-term consequences of nuclear-weapon tests in the western part of Mongolia, experiences gained from the Chernobyl accident, single-State nuclear-weapon-free zones, and the idea of establishing a nuclear-weapon-free zone in North-East Asia. A representative of the Centre made a statement at the opening session about its role in assisting States in their efforts to establish a nuclear-weapon-free zone in the region.

17. Furthermore, as a means of promoting cooperation between the Centre and its stakeholders, the Centre provided substantive advice and technical assistance to the prefecture and city of Nagasaki, Japan, in organizing the fourteenth United Nations and Disarmament Symposium, on the theme "Multiple challenges to the Non-Proliferation Treaty regime today", which was held in Nagasaki on 24 and 25 August 2006. Devoted to the topic of disarmament and non-proliferation education, the symposium provided a forum for the citizens of Nagasaki to learn about the various measures being taken by the international community towards the goal of a world free from nuclear weapons. The Centre also provided technical and substantive support to the United Nations Association of Japan in organizing two annual symposiums. The first symposium, on the theme "Security in North-East Asia: the implications of the nuclear test carried out by the Democratic People's Republic of Korea", was held in Kanazawa, Japan, on 16 November 2006. The second symposium, on the theme of "The initiation of renewed dialogue on North-East Asia", took place in Saitama, Japan, from 25 to 27 June 2007. The main objective of the symposiums was to promote regional dialogue in North-East Asia addressing security concerns, challenges to non-proliferation regimes relating to weapons of mass destruction, the global energy situation, unusual weather patterns and the current situation in the field of nuclear disarmament and non-proliferation. The symposiums adopted a road map to address regional disarmament-related issues in North-East Asia in the coming years.

D. Outreach and information activities

18. The Centre regularly updates its website to keep the public abreast of its activities. In addition, a brochure providing information on the activities of the Centre and its main objectives is currently being revised and will be distributed to participants in meetings and conferences organized by the Centre and to Member States.

19. On 11 April 2007, in celebration of the twentieth anniversary of its establishment, the Centre organized the screening of a documentary entitled *Hiroshima Ground Zero* at Dag Hammarskjöld Library Auditorium at Headquarters. The documentary used three-dimensional computer graphics to recreate, on the basis of the memories of survivors, images of Hiroshima before its destruction by the atomic bomb. In connection with the screening, the Centre also organized, in

collaboration with the United Nations Correspondents Association, a press conference in honour of Masaaki Tanabe, Producer and Director of the documentary, who donated the film to the United Nations on behalf of the Restoration of Sarugaku-cho Film Committee. In a letter addressed to the Mayor of Hiroshima, the Secretary-General expressed his sincere appreciation to the Film Committee and to Masaaki Tanabe for the donation, and stated that he believed the hibakushas' message that "No one else should ever suffer as we did" should be shared by all peoples of the world.

III. Relocation of the Centre

20. The Office for Disarmament Affairs continued its consultations with the host Government of Nepal on the relocation of the Centre to Kathmandu. Since my previous report (A/61/163), both the host country agreement and the memorandum of understanding have been revised to take into account the new requirements of United Nations security standards and norms, as well as the corresponding updated installation and operating costs to be borne by the host Government. The updated draft host country agreement and the memorandum of understanding were transmitted by the Office to the Government of Nepal on 27 November 2006. The Office was informed, in a letter from the Permanent Representative of Nepal dated 13 July 2007, that the Government of Nepal concurred with the two documents and was ready to sign them. The host country agreement and the memorandum of understanding were signed by the High Representative for Disarmament Affairs and the Permanent Representative of Nepal on behalf of the host Government at a ceremony at Headquarters on 20 July 2007, paving the way for the relocation of the Centre to Kathmandu.

IV. Staffing and financing

21. In accordance with General Assembly resolution 42/39 D, the United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific was established on the basis of existing resources and voluntary contributions that Member States and interested organizations might make to that end. In resolution 61/94, the Assembly expressed its appreciation for the continuing political support and voluntary financial contributions to the Regional Centre, which are essential for its continued operation. It also appealed to Member States, in particular those within the Asia and the Pacific region, as well as to international, governmental and non-governmental organizations and foundations, to make voluntary contributions — the only resources available to the Regional Centre — so as to strengthen the Centre's programme of activities and the implementation thereof.

22. During the reporting period, voluntary contributions in the amount of $38,870 were received. That figure does not include an amount of $20,000, which was received on 28 December 2006 and was recorded in 2007. The Secretary-General wishes to express his gratitude to the Governments of China, Kazakhstan, Pakistan, the Republic of Korea and Thailand for their contributions.

23. The Secretary-General also wishes to express his appreciation to the Governments of the Republic of Korea and of Japan and to the city of Yokohama,

Japan, for their financial and technical support for the United Nations conferences organized by the Centre during the past year.

24. The Centre's current staff consists of the Director and one General Service staff member. One Associate Expert post remains available to the Centre; the Centre is seeking the assistance of Member States in identifying suitable candidates to fill that post with a view to strengthening the Centre's capacity to implement its mandate.

V. Conclusions

25. The Centre continued to implement its mandate in promoting regional and subregional dialogue on security and global and regional disarmament issues, as well as to serve as an instrument for fostering a climate of cooperation and disarmament in the region. During the reporting period, the Centre's activities focused specifically on addressing issues relating to challenges to the non-proliferation regime, the effective implementation of the Non-Proliferation Treaty and the full implementation of the Programme of Action on the illicit trade in small arms and light weapons, as well as on assisting Member States in the region to implement Security Council resolution 1540 (2004) and on promoting the United Nations study on disarmament and non-proliferation education.

26. In order to promote further cooperation, the Centre continued to expand its contacts with academic institutions, foundations and regional and subregional organizations within the Asia and the Pacific region, as well as with disarmament-related international organizations. The Centre also continued to raise public awareness about challenges, developments and trends in the field of disarmament and security in the region. The Centre further expanded its outreach to its constituencies through the updating of its website so as to provide information on its role and various activities.

27. In order for the Centre to ensure its operational sustainability and to fulfil its mandate, increased and sustained financial support from Member States and interested organizations is essential. The Secretary-General urges Member States, in particular those in the Asia and the Pacific region, to continue to provide or to increase financial support, including core funding, to the Centre in support of its programmes and activities, especially at this time when the Centre is preparing to relocate to Kathmandu.

28. The Secretary-General welcomes the signing of the host country agreement and the memorandum of understanding between the United Nations and the Government of Nepal and looks forward to the relocation of the Regional Centre and its subsequent effective operation from Kathmandu.

Annex I

Status of the Trust Fund for the United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific for 2006[a]

	United States dollars
I. Fund balance as at 1 January 2006	159 700
II. Income	
1 January-31 December 2006	
Voluntary contributions[b]	38 870
Interest income	7 009
Miscellaneous income	—
Subtotal	**45 879**
III. Expenditures	
1 January-31 December 2006	48 326
Programme support	6 282
Subtotal	**54 608**
IV. Fund balance, 31 December 2006	150 971

[a] Information based on the statement of income and expenditure for the 12-month period ending 31 December 2006.

[b] Includes contributions from China ($10,000), Kazakhstan ($20,000), Pakistan ($5,879) and Thailand ($3,000). Does not include a contribution from the Republic of Korea ($20,000) received on 28 December 2006, which will be recorded for 2007.

Annex II

Planned activities of the United Nations Regional Centre for Peace and Disarmament in Asia and the Pacific for which funding is sought

Project I

Title: The nineteenth United Nations Conference on Disarmament Issues

Purpose: To assist the Asian and the Pacific community in promoting dialogue on nuclear proliferation risks

Location: Sapporo, Japan

Duration: 3 days (27-29 August 2007)

Number of participants: 60 participants, including Government officials, academics and NGO representatives

Cost estimates

	United States dollars
Travel of participants	120 000
Travel of two or three staff members	25 000
Operating expenses	6 000
Programme support (13 per cent, rounded)	19 600
Total	**170 600**

Project II

Title: United Nations-Republic of Korea joint conference on disarmament and non-proliferation issues

Purpose: Sixth regional disarmament conference to address security concerns in North-East Asia, including nuclear non-proliferation and missile issues

Location: Seoul, Republic of Korea (to be confirmed)

Duration: 3 days (December 2007 — exact dates to be determined)

Number of participants: Approximately 30 participants, mainly from the Asian and the Pacific region

Cost estimates

	United States dollars
Travel of participants	100 000
Travel of 2 or 3 staff members	25 000
Operating expenses	5 000
Programme support (13 per cent, rounded)	16 900
Total	**146 900**

Project III

Title: Workshop to promote the United Nations study on disarmament and non-proliferation education in Central Asia

Purpose: To assist in capacity-building and encourage States to implement the recommendations contained in the United Nations study on disarmament and non-proliferation education

Location: Central Asia (venue to be determined)

Duration: 3 days in 2008 (dates to be determined)

Number of participants: 16 participants, including Government officials from the Central Asian States and representatives of international and non-governmental organizations

Cost estimates

	United States dollars
Travel of participants	21 500
Travel of three staff members	23 300
Operating expenses	10 500
Programme support (13 per cent, rounded)	7 200
Total	**62 500**

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Item 64 (b) of the provisional agenda*
Social development: social development, including questions relating to the world social situation and to youth, ageing, disabled persons and the family

Cooperatives in social development

Report of the Secretary-General

Summary

The present report is submitted in response to General Assembly resolution 60/132, in which the Secretary-General was requested to submit a report to the Assembly at its sixty-second session, focusing on the role of cooperatives in promoting full and productive employment. Chapter I of the report provides an introduction and review of the role of cooperatives in promoting employment generation. Chapter II discusses how cooperatives, as business enterprises, contribute to employment creation in different sectors and for certain social groups. Chapter III identifies some emerging opportunities and some challenges that cooperatives face in relation to employment creation; and discusses the role of the different stakeholders towards that end. The report also presents the results of a survey of Member States regarding their views on the role of cooperatives in employment creation and offers recommendations for consideration by the Assembly.

* A/62/150.

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I. Introduction

1. The present report examines the contribution of cooperatives in promoting full and productive employment and identifies opportunities and initiatives to scale up and broaden the potential of cooperatives in employment creation. The report incorporates the views expressed by 48 Member States in response to a survey carried out by the Secretariat and contributions by the International Labour Organization (ILO) and the Food and Agricultural Organization of the United Nations (FAO). It also reflects issues discussed at the expert group meeting on cooperatives and employment organized by the Department of Economic and Social Affairs, ILO and the International Cooperative Association (ICA) and hosted by the All China Federation of Supply and Marketing Cooperatives, which was held in Shanghai, China, from 15 to 19 May 2006.

2. Since the holding of the World Summit for Social Development in Copenhagen in 1995, the United Nations has underscored the role of productive employment in reducing poverty and promoting social development. At the World Summit held at United Nations Headquarters in September 2005, world leaders made the commitment "... to make the goals of full and productive employment and decent work for all, including for women and young people, a central objective of relevant national and international policies ...".[1]

3. Today, more than a decade since the World Summit in Copenhagen, the number of unemployed is at an all time high of 195 million in 2006, even though more people are working globally. According to ILO estimates, unemployed young people account for 86 million, or more than 40 per cent of the total number of unemployed. Furthermore, the employment gap between men and women persists. Hence, the challenge of promoting and generating full and productive employment continues to confront policymakers everywhere.

4. As economic and social enterprises, cooperatives help generate employment in many areas worldwide. Employment creation is not, however, the primary goal of cooperatives, except for the worker-owned type.[2] Cooperatives are formed in order to meet the needs of their members and the employment generated is the product of meeting those objectives.

5. More broadly, cooperatives facilitate the economic and social progress of their members, through self-help efforts and help in the fight against poverty. The benefits and employment generated by cooperatives enable their members to achieve economic security and prevent millions from falling into poverty. By helping to sustain income and employment opportunities, especially in remote areas where public and other private sector initiatives tend to be weak or absent, cooperatives contribute to generating sustainable livelihoods and to the overall development of the local communities in which they operate.

6. Cooperatives have an impact in employment through the direct, indirect and induced employment they generate as a result of their economic activities. Direct employment refers to jobs generated within and directly paid for by cooperative organizations. Indirect employment refers to jobs generated by suppliers of inputs

[1] General Assembly resolution 60/1, para. 47.

[2] See Lindenthal, R., "Cooperatives and employment in developing countries", Enterprise and Cooperative Development Department, ILO, Geneva, 1994.

into cooperatives. For example, jobs in fertilizer manufacturing arising from the demand for fertilizers by agricultural cooperatives, are considered to be a form of indirect employment. Induced employment refers to jobs generated in the local economy as a result of spending wages and incomes earned from employment and membership in cooperatives.[3] However, comprehensive measurement of and reporting on the effects of cooperatives on employment at the national and global levels are hampered by the lack of data and by complexities in measurement.[4] Nevertheless, case studies and anecdotal evidence can be cited to indicate and suggest the effects of cooperatives on employment.

7. Various types of cooperatives facilitate employment generation in different sectors and segments of society. Financial cooperatives, which provide members with financial services, help finance new and small enterprises and thus promote job creation. Agricultural and consumer cooperatives, among others, generate jobs directly in production, marketing, sales, transportation and distribution and indirectly through multiplier effects. Worker cooperatives also promote employment by enabling skilled workers to organize and start businesses.

8. Cooperatives also help generate job opportunities for women, youth, indigenous peoples, persons with disabilities and older persons, who are often subject to discrimination and exclusion from employment opportunities. Experience has shown that properly designed and managed cooperative enterprises and microfinance schemes are particularly helpful in promoting the employment and empowerment of women. Cooperatives, as self-help organizations, are also relevant in providing livelihoods in post-conflict situations.

9. Given the role of cooperatives in generating employment and in fostering economic activity, without undermining their autonomy and independence, serious consideration should be given to scaling up the impact of cooperatives in their traditional areas of engagement and to promoting their engagement in new activities where the potential for employment exists.

II. Cooperatives and the promotion of full and productive employment

A. Cooperatives as business enterprises contributing to employment creation

10. The contribution of cooperatives to promoting full and productive employment is manifold. Firstly, they provide direct employment to their own employees. In addition, according to ICA, through their self-help enterprises and their commitment to members and their communities, they generate an estimated 100 million jobs worldwide. In Canada cooperatives and credit unions employ over 160,000 people; in France, 21,000 cooperatives provide jobs to 700,000 people; and in Germany

[3] Standard definitions used in impact analysis studies. See Joe Folsom, United States Department of Agriculture, "Measuring the Economic Impact of Cooperatives in Minnesota", Rural Business-Cooperative Service (RBS), research report No. 200.

[4] McKee, G., Kenkel, P. and Henehan, B., "Challenges in Measuring the Economic Impact of Cooperatives", paper prepared for presentation at the 194th annual meeting of NCERA, Minneapolis, 2-3 November 2006.

about 8,100 cooperatives provide jobs for 440,000 people. In Kenya, 250,000 people are employed by cooperatives, while in Slovakia the Cooperative Union's 700 cooperatives employ an estimated 75,000 individuals. In Colombia, the cooperative movement provides employment to 109,000 persons and to an additional 379,000 owner-workers in worker cooperatives.

11. Cooperatives also generate indirect and induced employment. Indirect employment arises in those businesses that provide inputs (whether goods and services) to cooperatives. Induced employment is the result of the increased demand on the economy created by the spending of wages and incomes by employees and members of cooperatives. While comprehensive national and global estimates of the indirect and induced employment effects of cooperatives are not available, some studies on cooperatives in the United States of America and on their economic activities suggest that indirect and induced employment effects could be about 70 per cent of the direct employment effects of cooperatives, suggesting that for every 10 cooperative jobs, 7 additional jobs are generated elsewhere.[5]

12. Cooperatives also promote employment by providing training and developing entrepreneurial abilities. They harness credit, other capital and other resources, thus enabling productive employment, which would not have been possible without the pooling of resources and abilities. Cooperatives that provide microfinance help generate self-employment and jobs in microenterprises. Cooperatives are particularly relevant for capacity-building and tapping productive potential within marginalized groups, including women, youth, people with disabilities and indigenous peoples, who often have limited access to education and training. Cooperatives in the dairy industry in India, which have been catalysts for local entrepreneurial growth among women, are particularly successful examples of such an impact.

13. As self-help enterprises, cooperatives generate much needed job opportunities in areas often least served by governments and other private business enterprises. In addition, they also serve as a helpful counter-cyclical measure in employment crises and create opportunities for alternative livelihoods. The growth of cooperatives to coincide with difficult economic and social conditions and periods of high unemployment.[6] The Mondragon cooperative, for example, was established primarily to provide meaningful employment in the depressed Basque region in Spain in the 1940s.

14. In addition to generating job opportunities, cooperatives subscribe to the principles of the decent work agenda advocated by ILO.[7] Since cooperatives unite business and social goals, they often provide strong mechanisms for encouraging social objectives among their members and within the wider community, including

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[5] The Folsom study covered 311 cooperatives and 185 credit unions directly employing 45,922 people, with an estimated total employment effect of 79,363; Hodges, A., Mulkey, D., Philippakos, E. and Adams, C.; "Economic Impact of Florida's Commercial Fisheries and Aquaculture Industries", Department of Food and Resource Economics, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, June 2001.

[6] Dickstein, Carla, "The promise and problems of worker cooperatives", *Journal of Planning Literature*, vol. 6, No. 1 (August 1991).

[7] The ILO decent work agenda promotes opportunities to obtain decent and productive work based on the following four pillars: rights; employment; social protection; and social dialogue.

objectives related to the promotion of decent employment. Furthermore, social responsibility, a recent concern of corporations with the growing emphasis on corporate social responsibility, has long been at the core of the raison d'être of cooperatives.

B. Cooperatives and employment in various sectors

15. Cooperatives play an important role in agriculture and in rural communities where they remain an integral part of the social fabric. Cooperatives of agricultural producers enable individual farmers/members to be more competitive and efficient, leading to greater sustainability in farming employment. In addition, agricultural supply, marketing and service cooperatives impact the farm economy through the provision of services, including access to agricultural inputs and markets, direct employment, and support for the self-employment of millions of farmers. Agricultural cooperatives are particularly relevant since external public and private business investments are often lacking in rural areas and people have to rely on self-help initiatives to address their needs.[8]

16. In India, the value of cooperatives in promoting and providing employment in rural areas is clearly evident. Its agricultural cooperatives played a major role in its "green" and "white" (dairy) revolutions, supplying income and employment to tens of millions of the rural poor. There are over 150,000 primary agricultural and credit cooperatives in India, serving more than 157 million agricultural/rural producers.[9] The dairy cooperatives in India, which generate employment for around 12.4 million farm families,[10] have proven to be particularly effective mechanisms for employment generation and for improving the livelihoods of the poor. These dairy cooperatives remain economically viable especially in the informal milk markets, despite the lack of modern technology in handling highly perishable milk and dairy products.[11]

17. In developed countries, agricultural cooperatives and cooperatives in rural areas also contribute to employment generation. For example, in the United States, the farm supply and grain marketing cooperatives in Colorado and Indiana help generate direct and indirect employment and incomes.[12] Approximately 30 per cent of farmers' products in the United States are marketed through 3,400 farmer-owned cooperatives. In Japan, a society where the agricultural sector enjoys widespread public support, membership in agricultural cooperatives includes about 90 per cent

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[8] Das, B., Palai, N. and Das, K., "Problems and Prospects of the cooperative movement in India under the Globalisation Regime", XIV International Economic History Congress, Helsinki 2006.

[9] Polman, W., "Presentation on Rural employment through agricultural/rural cooperative development: Lessons learned from FAO experience in Asia", FAO Regional Office for Asia and the Pacific, prepared for the Expert Group Meeting, Cooperatives and Employment, Shanghai, 15-19 May 2006.

[10] National Dairy Development Board, facts as of March 2006.

[11] FAO, Employment generation through small-scale dairy marketing and processing. Experiences from Kenya, Bangladesh and Ghana. A joint study by the International Livestock Research Institute market-oriented smallholder dairy project and FAO, Animal Production and Health Division, FAO 2004.

[12] McNamara, Fulton, and Hine, 2004, "Weighing in: study gauges impact of local agricultural cooperatives on rural economies of Great Plains, Eastern Cornbelt" (http://findarticles.com/p/articles/mi_m0KFU/is_2_71/ai_116525611/print).

of all Japanese farmers. In several European countries, including France, Germany and Italy, agricultural supply and marketing cooperatives are known to employ hundreds of thousands of workers.[13]

18. Given the work seasonality and informal labour market in most rural areas, agricultural cooperatives make a significant contribution to decent work. In agricultural cooperatives, staff members typically receive salaries above the minimum wage and enjoy comparatively higher job security. Despite the seasonality in agricultural activities, the majority of those working for agricultural cooperatives are retained under non-seasonal contracts that provide for year-round employment.

19. Another large group of cooperatives that help generate employment are consumer cooperatives. These cooperatives are formed in order to enable consumers to purchase goods economically, by reducing reliance on middle-men, by bulk-buying and through joint production. They also operate retail outlets. In carrying out these activities, consumer cooperatives employ sales clerks, managers and transportation workers.[14]

20. Consumer cooperatives can be significant players in their respective countries, as is the case in Europe. The Cooperative Group, the largest consumer cooperative in the United Kingdom of Great Britain and Northern Ireland, employs 68,000 in all its subsidiary undertakings, which include food stores, banking, insurance, funeral services, farming and pharmacy services. In Sweden, consumer cooperatives account for 17.5 per cent of the market. Migros, the largest cooperative supermarket chain in Switzerland, employs 79,000 people. In Hungary, consumer cooperatives account for 14.4 per cent of national food and general retail sales and in Denmark, they account for 37 per cent of the market.[13] In Asia, Japan has a very large and well-developed consumer cooperative movement, with over 14 million members, and in 2003, retail cooperatives alone had a combined turnover of 2.5 trillion yen or about 21 billion United States dollars.[15] In Singapore, consumer cooperatives get 55 per cent of supermarket revenues, while in Kuwait they handle about 80 per cent of national retail trade.

21. Other cooperatives of this type, including housing and building and utility cooperatives, also contribute to employment. Housing and building cooperatives directly create employment through the construction and maintenance of housing facilities. They also promote and facilitate the improvement and expansion of infrastructure (roads, water, and playgrounds), which generate more employment.

22. While the direct employment impact of utility cooperatives may not be large, since they are not as labour-intensive as service or production cooperatives, they nevertheless help promote employment by providing electricity in their localities. Utility cooperatives generate employment in both the farm and off-farm sectors and help reduce poverty, even among households without access to electricity.[16] They provide a stable, reliable and affordable supply of power in rural areas, thereby enhancing the standard of living of the rural population by expanding production-

[13] ICA website: http://www.ica.coop/coop/statistics.html.

[14] http://www.eurocoop.org/FAQS/en/default.asp.

[15] Japanese Consumers' Cooperate Union, 2003.

[16] Barkat, Abul, "Rural Electricity Cooperatives in Bangladesh: Impact on Employment Creation and Poverty Reduction", paper presented at the Expert Group Meeting on Cooperatives and Employment, Shanghai, 16-19 May 2006.

oriented and human development activities. In Bangladesh, rural electrification cooperatives, which serve as the nucleus of the Bangladesh rural electrification programme, had 4 million members in 67 cooperatives during the period from 1983 to 2004. In the United States, 900 electric cooperatives provide services to 37 million members in 47 States, and their focus on economic development helps to create new businesses and employment.

23. Financial cooperatives, including credit unions, contribute to direct employment by providing jobs for front line staff and managers. According to the World Council of Credit Unions, there are around 42,000 credit unions in some 92 countries, with a combined membership of 157 million. Statistics for 2004 indicate that 8,400 credit unions have a combined employment level of 230,000 people,[17] in the United States, suggesting that credit unions worldwide employ an estimated 1 million people. In Europe, 4,500 cooperative banks employ an estimated 700,000 employees,[18] with more than 56,000 branches playing a vital role in providing services to the continent, particularly to its inner cities and some of its most remote villages. The market share of cooperative banks in rural areas in Europe ranged from about 41 per cent in Germany to up to 85 per cent in France.[19]

24. The most significant impact of financial cooperatives on employment is through the enterprises they finance. By providing credit to businesses and entrepreneurs, cooperatives drive local economic growth and employment generation. The role of financial cooperatives is particularly meaningful since they finance business activities that would otherwise not receive support from larger corporate financial institutions. By providing microfinance, cooperatives also promote self-employment through microentrepreneurs, which are known to have a positive effect on households and to promote the empowerment of women. The World Council of Credit Unions estimates that, globally, self-employed entrepreneurs and a smaller number of self-employed farmers account for anywhere from 10 to 70 per cent of the total membership of credit unions.[20]

25. In providing consumer credit or instalment programmes, financial cooperatives stimulate local consumption spending, thus further stimulating demand for labour. Additionally, large financial cooperatives, such as Desjardin in Canada, create employment, not only in their countries of origin, but also in developing countries through their development assistance programmes and other cooperative-to-cooperative activities.

26. Among the different types of cooperatives, worker cooperatives are organized primarily for employment purposes. They are businesses that are owned and managed by their employees, who, as member-workers, have direct control over the labour-capital mix in the production process. They are typically formed by skilled artisans who unite into one enterprise, or by workers who organize to buy out businesses that are at risk of closure because of failure, relocation or owner retirement. By uniting under a cooperative enterprise rather than operating

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[17] http://www.census.gov/epcd/susb/latest/us/US52213.HTM.

[18] European Association of Co-operative Banks http://www.eurocoopbanks.coop.

[19] Cooperatives and cooperatives banks, Rabobank, 2000, cited in "Corporate Social Responsibility: The Performance of Cooperative Banks", European Association of Cooperative Banks, 2005.

[20] See Ikeda, John, "Financial Cooperatives and Microfinance", paper presented at the Expert Group Meeting on Cooperatives and Employment, Shanghai, 15-19 May 2006.

individually, production workers and artisans increase their odds of success and improve their chances for sustainable employment.

27. Workers' cooperatives tend to create more jobs and require less capital per unit of output compared to other private enterprises. In addition, they are able to achieve wage flexibility and to lower the cost of capital through the mobilization of the savings of their members and hence are relevant in areas with surplus labour and limited capital.

28. Workers' cooperatives promote job retention in their local communities. There have been cases where workers in non-cooperative enterprises, faced with actual or threatened unemployment through lay-offs, closure or relocation, have formed worker-owned cooperatives instead.[21] In Argentina, which underwent severe economic adjustments in 2001, worker cooperatives took over about 100 shuttered factories and shops, preserving about 10,000 jobs.[22]

29. Despite their long history, however, workers' cooperatives have not generated large-scale employment. The absolute numbers of employed are not significant compared to the size of the labour force. In Japan, for example, their impact on employment relative to the size of the total labour force remains modest. The Women's Worker Cooperatives employ 12,000; the Japan Workers' Cooperatives Union has 9,000; and the Senior Cooperatives, a hybrid of consumer/worker cooperatives by and for those 55 years and older, has 15,000 workers.[23] In Colombia, there are an estimated 379,000 worker-owners in worker-owned cooperatives.[15] Other notable worker cooperatives are found in the following sectors: the manufacture of tile-making machines in Italy; the production of coir and beedi in India; the operation of taxi companies in Singapore, Jakarta, Toronto (Canada), Auckland and Dublin; forest-harvesting cooperatives of the province of Quebec (Canada); and plywood cooperatives in the United States.[24]

30. The number of worker cooperatives has increased in recent years. The International Organization of Industrial, Artisanal and Service Producers' Cooperatives reports that there are currently 85,000 worker cooperatives in Europe, with 1.5 million worker-owners employed, compared to 2,500 in 1980.[25] The growth in worker cooperatives is partly explained by a growing trend in combining small service-sector and community-based activities to meet increased demand for services,[26] and by an ageing population of business owners hitting retirement. In France, for example, the ageing of business owners is driving the conversion of businesses into worker-run cooperatives. It is estimated that as many as 10,000

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[21] ILO, 2001, Promotion of cooperatives, report V(1), 89th session, 2001.

[22] Jeter, J., "For Argentine, a sweet resolve, cooperatives step in when factories fail", Washington Post Foreign Service, 24 February 2003.

[23] Marshall, B., "Japan's worker cooperative movement into the 21st century", 3 June 2006, (http://www.zmag.org/content/showarticle.cfm?ItemID=10368).

[24] See MacPherson, Ian, "Cooperatives and Employment: from self-help and survival initiatives to the sustainable livelihoods of communities", paper presented at the Expert Group Meeting on Cooperatives and Employment, Shanghai, 15-19 May 2006.

[25] Livingston, J. and Nembhard, J. G., "U.S. Federation of Worker Co-ops and Democratic Workplaces", http://www.worldproutassembly.org/archives/2005/08/us_federation_o_1.html.

[26] Mischa Gaus, "Worker Coops", Z Magazine online, July-August 2003, vol. 16, No. 7/8 (http://zmagsite.zmag.org/Aug2003/gaus0803.html).

small and medium-sized enterprises could become worker cooperatives in France within the next 10 years.[27]

31. A study of workers' cooperatives in North America and Europe suggests that the rise in the number of workers' cooperatives is the result of supportive measures such as legislation in support of their creation, support for social economy enterprises or funding assistance and preferential tax rates in several countries, including Argentina, Colombia, France and Spain, as well as in the province of Quebec in Canada. On the other hand, in countries that lack government support for workers' cooperatives, their growth has slowed down.[28] In addition, the potential for a significant increase in the number of workers' cooperatives is inherently hampered by the fact that the profits are shared by a large number of workers, and by higher start-up and management costs.

32. The growth of the informal economy in rural and urban areas poses a challenge for employment generation and in ensuring decent work for many. Informal workers are usually unorganized, unprotected and vulnerable. In response, informal workers have formed associations, considered as informal cooperatives or "pre-cooperatives", to improve their working conditions and bargaining power. Examples include taxi driver associations in many cities in developing countries and loose associations of craft workers such as tailors, woodcarvers, silversmiths and furniture-makers.

33. Formally organized cooperatives operating in the informal economy offer an effective method for promoting and enhancing employment and decent work for informal workers.[29] Cooperatives and trade unions, through the ILO SYNDICOOP programme, help workers in the informal economy to organize into cooperatives or self-help organizations. In so doing, cooperatives help to ensure income through setting piece-work rates, overtime work rates, pay guarantee, and gender equality arrangements. They also promote decent work through the adoption of health and safety standards, including measures for the proper use of toxic materials, and by reducing accidents and health hazards. In Rwanda, the ILO SYNDICOOP programme helped motorbike transportation workers to formally organize themselves into a self-help organization that provides credit, training, crime protection and local government lobbying for its members.[30]

34. Cooperative organizations in the informal economy also provide informal workers with low-cost services such as basic life insurance coverage and credit schemes for health and medical expenses. In Dar es Salaam, the Mwanayamala Cooperative organizes market vendors, offers life and health insurance, providing its membership with affordable social protection. In San Salvador, vendors in the Central Municipal Market have a similar scheme. In Manila, informal workers also avail themselves of cooperative insurance schemes that provide lower and more

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[27] International Organization of Industrial, Artisanal and Service Producers' Cooperatives, 2005.

[28] Craddock, T. and Kennedy, S., "Worker Cooperative Trends in North America and Europe", 2005 (http://www.geo.coop/InternationalTrendsinWorkerCoops.htm).

[29] Birchall, J., "Organizing in the informal sector: A strategy for trade union-cooperative action", Coop Working Paper 01-1, 2001.

[30] Smith, S. and Ross, C., "Organizing out of poverty: stories from the grassroots: How the SYNDICOOP approach has worked in East Africa", ILO, International Cooperative Alliance and the International Confederation of Free Trade Unions, 2006.

flexible payment terms. Finally, cooperatives, through their microfinance businesses, encourage the growth of microenterprises in the informal sector.

C. Cooperatives and employment creation among certain social groups

35. In addition to the employment impact in various economic sectors in urban and rural areas, cooperatives are also effective in opening up employment opportunities for certain social groups that tend to be marginalized from the labour market. By enabling marginalized members of society to pool their resources and skills in self-help enterprises, women, youth, older persons, persons with disabilities, indigenous peoples and migrants are able to obtain employment and exploit productive opportunities. Over time, some of these cooperatives have been able to raise output per worker substantially, in spite of the initial disadvantages of lack of labour skills and under-capitalization. Additionally, cooperatives provide social benefits and serve as effective means of government-assisted employment in lieu of welfare.[6]

36. Women find membership in cooperative enterprises an effective means of achieving economic empowerment and engaging in entrepreneurial activities and wage employment. In rural Andhra Pradesh province in India, for example, women's cooperatives that emphasize thrift even more than credit have been effective in enabling women to take part in productive employment, engaging in microenterprises such as vegetable vending, small retail shops and catering outlets.[31] The dairy cooperatives in India provide another example of how cooperatives have an impact on the lives of women. About 1.6 million women are members of dairy cooperatives in India, representing 18 per cent of the total dairy cooperative membership. There are also about 2,500 all-women dairy cooperatives operating in the country. These cooperatives, by providing post-milking facilities and marketing support, as well as training, cattle insurance and loans to purchase cattle, enable women to be actively engaged in the dairy industry.[32]

37. The impact of women's involvement in cooperatives extends beyond direct employment and entrepreneurship. Membership in health, childcare and consumer cooperatives have enabled women to significantly reduce their household burden, giving them the flexibility to work. Furthermore, cooperative membership by women has led to improvements in child health and education, thereby raising human capital, which has important long-term implications on labour productivity.

38. Today's youth are increasingly finding opportunities for entrepreneurial activities through the cooperative model. Employment opportunities and entrepreneurial livelihoods are particularly needed in developing countries with fast growing populations of young people. It is estimated that youth represent about half of the total of 192 million unemployed persons worldwide, a disproportionate share since they account for only 25 per cent of the world's population. Since capitalization is a major constraint to starting economic activities, cooperatives have provided young people with employment and income opportunities by pooling resources. While very small in size, these cooperatives enable young people to

[31] Ghosh, Jayati, 1998, http://www.twnside.org.sg/title/rural-cn.htm.

[32] http://www.indiatogether.org/2005/sep/wom-dairy.htm.

acquire the skills to enter the job market and to develop their entrepreneurial abilities.[33]

39. For older persons, cooperatives provide the means to set up mutual self-help programmes. Most cooperatives for older persons mainly provide services and generate employment directly for those providing the services. There are also hybrid cooperatives that provide older persons with employment, serving partly as workers' cooperatives and partly as consumers' cooperatives. These cooperatives enable retired persons to provide services to others based on their experience and skills. In Japan, for example, Koreikyo, a senior cooperative, helps able seniors to find work and provides services that allow frail older persons to live independently and remain in their homes.[23] In view of the rapidly growing population of older persons, such cooperatives enable older persons to remain productive members of society while, at the same time, catering to their own needs, providing an attractive option from both an economic and social point of view.

40. Worker-owned social cooperatives are especially relevant in helping meet social service needs and providing persons with disabilities with employment opportunities and a sense of productive well-being. Social cooperatives have been quite successful in Italy. With the downsizing of the welfare model in Italy in the 1970s, two basic forms of cooperatives have evolved: one providing social services in health care and education; and the other creating employment for certain disadvantaged groups such as those with severe disabilities, people with mental illness and recovering drug addicts and alcoholics.

41. In 2003, social cooperatives in Italy employed an estimated 193,000 workers, 50 per cent of whom, as required by law, were persons with disabilities. In addition, 70 per cent of managers and workers of social cooperatives in Italy are women.[34] In order to scale up the success of social cooperatives, social franchising was recently introduced. "Le Mat", an example of a social franchising network of social cooperatives in the hotel business in Italy, creates job opportunities with career prospects and promotes economic independence by developing the entrepreneurial abilities of people with disabilities.

42. Social cooperatives also help promote employment through their programmes to prevent disability and impairment and to advance occupational and consumer safety awareness and healthy living. In addition, together with some worker-owned cooperatives, they provide opportunities for reintegration for persons with disabilities through vocational rehabilitation. Examples of such cooperatives can be found in several countries in South-East Asia, particularly in the agricultural sector.

43. Cooperative business enterprises have been used by indigenous peoples to generate employment and sustain livelihoods. In the process, they have gained valuable lessons about economic empowerment that have enabled them to mobilize and utilize local resources and secure access to markets under fairer conditions. In the United Republic of Tanzania, modernization and the breakdown of traditional institutions have resulted in the erosion of traditional knowledge, education and means of sustenance of the Masai people. As a result, the traditional pastoral

[33] Smith, Puga, MacPherson, editors, "Youth Reinventing Cooperatives", British Columbia Institute for Cooperative Studies, 2005.

[34] Goergen, R., "Social Cooperatives in Italy", paper presented at the Expert Group Meeting on Cooperatives and Employment, Shanghai, 15-19 May 2006.

economy has been compromised. In response, through the ILO's Interregional Programme to Support Self-reliance of Indigenous and Tribal Communities through Cooperatives and other Self-help Organizations (INDISCO) project, a pastoralist cooperative society has been organized to provide alternative livelihoods and employment in farming and small-scale businesses.[35] In Orissa in India, the tribal cooperatives and self-help groups formed through INDISCO generated 2,330 jobs in traditional and in new enterprises, including a saal leaf collection business and horticulture.[36] These examples provide evidence to suggest that cooperatives by indigenous peoples can be instrumental in preserving and promoting indigenous knowledge and livelihoods while also providing training for new skills.

44. Finally, cooperatives also play a role in jump-starting employment activities in post-conflict or post-disaster areas. This role is particularly important when many private enterprises cannot yet justify making an investment in these areas owing to higher uncertainties in business outcomes, damaged or inexistent infrastructure and poor communications and transportation systems. A study on the role of cooperatives in post-conflict areas provides anecdotal evidence that cooperatives have been successful in creating jobs for returning minorities and ex-combatants, and are particularly effective in cases when markets are distant.[37] In East Timor, El Salvador and Bosnia, for example, the study found that cooperatives provide effective incentives for the return of ex-combatants and displaced persons to their homes and help restart businesses disrupted by conflict, while in Nepal, Rwanda and the Sudan, cooperatives have succeeded in creating market linkages between ethnic minority and majority populations.

III. Strengthening the role of cooperatives in employment generation

A. Emerging opportunities and challenges

45. Given the capacity of cooperatives to generate employment, especially in areas least reached by government or other private businesses, it is important for policymakers to understand the challenges and opportunities that cooperatives face in today's rapidly globalizing world. At issue is the long-term viability and growth of cooperatives, so that the employment opportunities they generate are sustainable, and the question of how to scale up cooperative enterprises in order to maximize their contribution to employment generation.

46. Globalization and rapid developments in the field of information and communications technology have both intensified business competition and opened up new markets. Demographic trends, such as ageing and rapid urbanization, and growing environmental concerns have also generated possibilities for growth and expansion into new activities. Another area that requires the attention of

[35] Bee, Diyamett, Towo, "Challenges to traditional livelihoods and newly emerging employment patterns of pastoralists in Tanzania", an ILO-INDISCO study in collaboration with Jobs for Africa, Geneva, June 2002.

[36] Mahanti, Dilnawaz, "Building Capacities Towards Sustainable Tribal Cooperative Enterprise in Mayurbhanj, Orissa", March 2006.

[37] Weihe, T., "Cooperatives in Conflict and Failed States", United States Overseas Cooperative Development Council, 25 May 2004.

policymakers is how to help the cooperative movement identify and promote new areas of cooperative involvement and to create additional employment opportunities in those fields.

Improving the economic performance of cooperatives for employment generation

47. The impact of cooperatives on employment largely rests on their economic viability. In developing countries, cooperatives have traditionally been dependent on government and international support. External support, in particular during the formative stages of new cooperatives, has proven to be critical to the sustainability of the enterprises. However, securing such external support has tended to be increasingly difficult in view of the global trends towards privatization and reduced government funding. Similarly, raising additional capital to finance the expansion of existing cooperatives has become increasingly challenging.

48. Improvements in internal governance and management are equally important for today's cooperative enterprises. Some cooperatives are faced with dormant memberships, while others fail to conduct elections or to improve their human resources capabilities and their professional standards in the workplace. On another hand, economically successful cooperatives should also be prepared to address potential pressures to convert to for-profit public companies.

49. With global trade growing, cooperatives should be encouraged to take advantage of new or niche markets for their products and to introduce innovations in the production, marketing and distribution of their products. Cooperatives that standardize and make quality improvements to their products are likely to achieve economies of scale, thus gaining additional bargaining power in sourcing inputs and marketing outputs. Cross-cooperative collaboration between agricultural and industrial cooperatives may lead to similar benefits through vertical integration.

New and emerging market opportunities for cooperative engagement and the promotion of decent work

50. Trends in globalization, demographics and environmental awareness pose opportunities for new cooperatives and open new options for existing ones. Fair trade is a recent development that is increasingly utilized by some agricultural cooperatives as a means of expanding their markets and ensuring their incomes of producers in response to increasing global competition. Under fair trade, agricultural cooperatives in developing countries partner with distribution and consumer cooperatives and groups in developed countries and are paid a fair price guaranteed to cover the full cost of production. In turn, producer cooperatives are expected to meet international labour standards and to adopt non-discriminatory practices. By ensuring the incomes of producers, this arrangement helps the sustainability of agricultural cooperatives. Fair trade arrangements have been used in the marketing of such products as coffee, tea and bananas in countries such as Ghana, Ethiopia and Mexico.

51. Another innovative concept is the "New generation cooperatives", which have evolved in North America, where niche markets are served by rural-based activities relying on improvements in technology and communications. Promoting ecotourism and expanding markets for traditional arts and crafts, they offer alternative models for rural cooperatives and cooperatives operated by indigenous peoples.

52. Other non-traditional areas for cooperative engagement include health-care and caregiving services. With the growing demand for elderly care and with the labour-intensive nature of their services, health-care cooperatives offer opportunities for employment generation. In China, the rebuilding of the rural cooperative medical system is generating employment in services in addition to addressing local health needs.[38]

53. The trend towards rapid urbanization offers increased opportunities for cooperative growth. As crowding and slums increase, consumer cooperatives can offer basic services such as water supply and sanitation. In Bolivia, SAGUAPAC is an urban water supply and sanitation cooperative that successfully operates in the city of Santa Cruz.[39]

54. With growing concern for the environment, cooperatives are increasingly engaged in environmentally related activities. Forest cooperatives, for example, while common in Nordic countries, especially Finland, are now being formed in the United States. In this arrangement, small groups of landowners form cooperatives to bring together the management of their woodlands. About 56,000 acres of woodlands are currently lined up for sustainable management, guided by forest landowner cooperatives.[40]

55. Developing countries could benefit from the lessons learned by developed countries in developing cooperative models for sustainable forestry management. An example of such an approach is the Tree Growers' Cooperative Project, carried out in India with assistance from the Canadian International Development Agency, which aims to address deforestation and to introduce a forestry and agricultural production system that generates employment and long-term sustainability of natural resources.[41]

Enlarging cooperatives networks

56. Cooperatives' existing social networks need to assess and adapt to new developments. The federated structures in most national cooperative movements may not be best suited to developing new cooperatives that are outside the specific economic activity and mandate of a federated structure.[24] The development needs of new cooperatives may require the support of wider networks of cooperatives and cooperative banks that span different federations. Lessons learned from failed cooperative marketing efforts due to fragmented approaches and a lack of coordination at the local, national and international levels suggest the benefits of exploring new arrangements and collaborations between cooperatives in different sectors. In addition to agricultural and consumer cooperative collaborations, agricultural cooperatives can also collaborate with financial cooperatives in farm production credit arrangements.

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[38] Xinhua News Agency, "China to Promote Rural Cooperative Medical System", 11 August 2005, http://www.china.org.cn/english/features/poverty/138123.htm, accessed 30 May 2007.

[39] Ruiz-Mier and Van Ginneken, "Consumer Cooperatives: An Alternative Institutional Model for Delivery of Urban Water Supply and Sanitation Services", World Bank Note No. 5, January 2006.

[40] Padgham, J., "Sustainable Forestry Cooperatives in the Midwest", University of Wisconsin, Center for Cooperatives, Bulletin No. 1, July 2002.

[41] Forestry Profiles, "India: Tree Grower's Cooperative" (http://www.rcfa-cfan.org/English/profile.7.html), accessed 4 May 2007.

57. Cooperatives also face the weakening of traditional bonds that have encouraged cooperative formation in the past, when people were less mobile. New bases and bonds are needed in order to build the trust among members that is essential for the growth and success of cooperatives. Cooperative formation in the informal economy, particularly in slums in many cities in developing countries and in pockets of illegal immigrants and refugees in developed countries, faces this difficulty.

58. Finally, despite recent developments, cooperatives in some countries continue to face legal restrictions on certain areas of engagement. These restrictions limit the ability and flexibility of cooperatives to expand or operate in new areas. Continued dialogue between cooperatives and government agencies as well as representation in legislative and regulatory bodies may be essential to enhance the growth and expansion of cooperatives.

B. Role of stakeholders

59. Given the opportunities and challenges cooperatives face in terms of sustainability, growth and scaling up of existing activities, expansion into new areas of activities and the changing social network they operate in, it is imperative that various stakeholders contribute and coordinate their efforts so that the impact of cooperatives, especially on employment, is maximized. National and international stakeholders and the cooperative movement itself have all taken steps, albeit not always aligned and coordinated, to promote, support and sustain cooperative enterprises.

National stakeholders

60. At the national level, Governments play a role in enabling cooperatives to act as instruments for employment generation and adherence to decent working standards by providing them with the legal basis to operate and, increasingly, with an enabling environment.

61. Responses to the recent survey of Member States indicate that governments recognize the contribution of cooperatives to employment generation. Of the 48 Member State respondents, 46 indicated that government policies promote the development of cooperatives in their respective countries. This is particularly evident in rural areas among agricultural farmers' cooperatives and credit cooperatives, including various consumer cooperatives that provide social services.

62. Governments also increasingly recognize the importance of providing an enabling environment for cooperatives. This includes providing the appropriate legal and institutional framework for the creation, functioning and sustainability of cooperatives by updating or amending regulatory practices and lifting barriers to their participation in certain economic activities. Governments typically support the growth of cooperatives through tax relief and by co-financing start-up cooperatives. In addition, certain countries still provide subsidies and interest-free loans, especially to new cooperatives. Nevertheless, cooperatives are increasingly under pressure to have their tax-exempt status removed. At issue, therefore, is how to identify appropriate and fair taxation that considers the specificities of different cooperatives.

63. Governmental programmes in support of cooperatives often include raising public awareness, promoting the growth of cooperatives and strengthening their capacity through technical training and workshops and the acquisition of modern technology. Of the 48 Member States that responded to the survey, 35 indicated that their Governments adhered to the United Nations guidelines aimed at creating a supportive environment for the development of cooperatives[42] and to ILO Recommendation No. 193 concerning the promotion of cooperatives.

64. In implementing the above-mentioned United Nations guidelines, Governments have been giving particular attention to the reform and development of institutional frameworks. This encompasses reorganizing and modernizing the legal framework for cooperatives, including updating or amending regulatory practices, removing barriers to the participation of cooperatives in economic activities and facilitating the provision of training and acquisition of modern technologies. Another priority lies in supporting cooperatives for disadvantaged groups and encouraging the participation of women, youth and groups who are often marginalized. Efforts have also been made to raise awareness and disseminate information and public recognition of cooperatives through the use of information and communication technologies and the media.

65. Thirty-five countries, from all regions, reported that various aspects of ILO Recommendation No. 193 had been implemented as part of their national legal framework, including: ensuring measures on the provision of decent work; improving corporate governance and promoting autonomy and self-management; and the provision of equal status to cooperatives vis-à-vis other enterprises and incentive schemes to promote gender equality. To varying degrees, Governments have adopted measures to allow cooperatives to expand into banking and insurance, where needed; amended laws on cooperatives; facilitated access of members to training and education; included cooperative courses in education curricula, disseminated information on cooperatives and promoted good practices among cooperatives. Overall, responding countries are working to develop policies and programmes aligned with the cooperative values and principles.

66. Governments have also taken measures that strengthen the role of cooperatives in promoting full and productive employment specific to their countries. Some countries, for example, have schemes to promote the growth of cooperatives in new areas, including insurance, health and savings and credit cooperatives, while other countries have encouraged cooperatives to become effective services providers in areas where market failures have resulted in poor provision of services such as rural water supply and rural electrification. Some countries focus on the creation and development of cooperatives in poor areas and incorporate cooperatives in their poverty reduction strategies. A number of Governments have also taken measures to educate youth about the cooperative model of business enterprise and employment, including by establishing links between colleges and the cooperative movement.

67. Overall, the main thrust of national stakeholders in promoting the role of cooperatives in employment generation is to ensure that cooperatives and their enterprises are sustainable while reaching out to areas and groups that have limited access to open-market resources.

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[42] See General Assembly resolution 56/114 and A/56/73-E/2001/68, annex.

International stakeholders

68. International organizations help promote cooperatives, in recognition of their role in socio-economic development in general and in generating employment in particular. In General Assembly resolution 56/114, the attention of Member States was drawn to the United Nations guidelines aimed at creating a supportive environment for the development of cooperatives as a framework for developing or revising their national policies on cooperatives. In 2002, the ILO put forth Recommendation No. 193 on the promotion of cooperatives. FAO, for its part, has worked with agricultural cooperatives for many years.

69. The United Nations, through its intergovernmental processes, continues to encourage Governments to develop national policies conducive to the promotion of cooperatives, consistent with the United Nations guidelines. In particular, it has organized the International Day of Cooperatives and has arranged expert group meetings on cooperatives as a means of raising awareness and sharing good practices among Member States. It also promotes the continuing dialogue between cooperatives, the cooperative movement and Member States. Furthermore, the United Nations assesses the implementation of the guidelines among Member States, conducting surveys and reporting on developments and progress made.

70. The Committee for the Promotion and Advancement of Cooperatives is an ongoing partnership between representatives of the cooperative movement, farmers' organizations, cooperative development agencies and the United Nations and its agencies. Its members work together on equal terms to promote and coordinate sustainable cooperative development through policy dialogues, technical cooperation, information exchange and concrete collaborative activities.

71. For its part, based on its Recommendation No. 193, ILO has been involved in a number of policy and law reviews and has started to engage its constituents in a dialogue on adapting the wider policy and legal framework within which cooperatives have to operate. ILO provides technical assistance in drafting by-laws and in reviewing laws that indirectly have an impact on the performance of cooperatives, including tax legislation and accounting standards. In the five years since its adoption in 2002, ILO Recommendation No. 193 has served as the framework for the revision of policy and laws on cooperatives in an estimated 70 countries.

72. Aiming at promoting the implementation of its Recommendation No. 193 as a whole, ILO seeks to: enable cooperatives to operate in all sectors; allow legal entities to be members of primary cooperatives (so-called shared service cooperatives); promote equal access to financing; provide for cooperative-specific auditing of cooperatives; adopt competition legislation and labour laws supportive of cooperative activities; and promote the formation of cooperative unions and federations. ILO has also started to systematically advocate the inclusion of cooperatives in the general education curricula, as recommended by its Recommendation No. 193.

73. In addition, ILO has engaged in cooperative projects in areas as diverse as poverty reduction in Burkina Faso, Mali and Senegal, village development projects in Orissa, India, post-disaster reconstruction of cooperatives in Aceh, Indonesia, and youth employment projects in South Africa. It has also continued work on the joint

ICA/ILO "Cooperating Out of Poverty" campaign, including efforts to mobilize cooperatives in the fight against HIV/AIDS.

74. The United Nations guidelines, ILO Recommendation No. 193 and the ICA Statement on the Cooperative Identity are outcomes and triggers of the renewed interest in cooperatives worldwide and in the development of innovative forms of cooperatives such as multi-stakeholder cooperatives, car-sharing and basic health care.

75. Within the framework of its recent work with cooperatives, FAO has placed particular emphasis on the computerization of agricultural cooperatives. Computerization is seen as a way to improve cooperative business management, administration and governance. Together with international and local partners, FAO has developed an open-source licensed prototype system called CoopWorks (http://www.coopworks.org), which is capable of handling the management and member information needs of a range of agricultural cooperative businesses. The pilot programmes in Kenya showed that computerization of dairy cooperatives can lead to significant membership and business growth and significant full-time and part-time employment creation.

The cooperative movement

76. The cooperative movement, through ICA, its umbrella organization, unites, represents and serves 220 member organizations from 85 countries, representing 800 million individuals worldwide. Members of ICA are national and international cooperative organizations. The organization seeks to raise awareness about cooperatives; lobbies Governments and promotes policy environments conducive to cooperative activities and information-sharing among cooperatives. It also provides technical assistance and financial support to cooperatives, promotes capacity-building, facilitates job creation and supports poverty reduction and microfinance programmes around the world.

77. Through its directives, ICA promotes gender equality within the cooperative movement. It engages the youth in cooperatives through its youth conference and its Youth Network. It has also adopted strategies for cooperatives involved in the fight against HIV/AIDS. In addition, ICA is currently addressing concerns on the implications of International Accounting Standards, which will treat member shares in cooperatives as debt, rather than equity, for accounting purposes, thereby changing the basis of ownership in cooperative enterprises. The pressures for demutualization are also being addressed by ICA, which continues to promote the involvement of cooperatives in fair trade.

78. At the national level, cooperatives that share similar pursuits are organized in cooperative federations. Cooperative federations offer an organizational framework for mutual support and common services, provide a venue for dialogue and address common issues and concerns.

C. Recommendations

79. Cooperatives, as self-help and member-owned enterprises, have proven to be effective in generating employment opportunities and decent work in economic sectors and areas, and their activities complement government and other private sector initiatives for job creation. They also create employment opportunities for

marginalized people, who might otherwise remain unproductive and underserved by other businesses. By providing financial services such as microfinance, for example, financial cooperatives enable microentrepreneurs, mainly women, to be self-employed. More recently, through their participation in fair trade arrangements, cooperatives have enhanced employment and economic activities in local communities by tapping into niche global markets. Finally, cooperatives, consistent with their values and principles, have contributed to the long-term productive capacities of individuals through the training, education, health and other social services they provide.

80. In light of the positive impact of cooperatives on employment and on the productive capacities of individuals, policymakers at the local, national and international levels should incorporate programmes enabling existing cooperatives to scale up their impact in generating employment into their development agendas, and should promote the formation of cooperatives in new areas.

81. The General Assembly may wish to consider the following recommendations and invite Governments and international organizations, in partnership with cooperatives and cooperative organizations, to:

(a) **Promote the growth of cooperatives as business enterprises that can contribute to sustainable employment and livelihoods in various economic sectors in urban and rural areas; provide support for the creation of cooperatives in new and emerging areas; adopt policies that will broaden the reach of microfinance activities of financial cooperatives and credit unions;**

(b) **Promote and facilitate the formation of cooperatives among excluded groups for generating employment opportunities and harnessing the potential and productivity of marginalized groups and increase their efforts to facilitate the full participation of women, youth, persons with disabilities, older persons and indigenous peoples in cooperatives;**

(c) **Engage in policy dialogue with all stakeholders in reviewing and amending cooperative legislation to provide a level playing field for cooperatives vis-à-vis other business enterprises, including appropriate tax incentives, access to financial services and markets;**

(d) **Strengthen collaborative efforts to build capacity for cooperative development through training, especially in management, auditing and marketing skills and technical assistance; Governments could help provide resources to start up cooperatives while encouraging cooperative autonomy and independence;**

(e) **Encourage the formation of cooperative federations and apex organizations, which can pursue unified and coordinated strategies, such as marketing and purchasing, which benefit individual cooperatives, and encourage partnerships among cooperatives in order to enhance the success of cooperative enterprises;**

(f) **Raise public awareness of the contribution of cooperatives to employment generation and to socio-economic development and promote comprehensive research and statistical data-gathering on the activities, employment and overall socio-economic impact of cooperatives at the national and international levels in order to inform both policymaking and the public at large.**

Annex

List of Member States that responded to the survey

Albania
Armenia
Azerbaijan
Bahrain
Bangladesh
Benin
Cameroon
Canada
Chile
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Ecuador
El Salvador
Finland
Georgia
Germany
Greece
Guyana
Honduras
Hungary
Iran (Islamic Republic of)
Jordan
Kazakhstan
Lebanon
Maldives
Mauritius
Moldova
Mongolia
Morocco
Mozambique
Palau
Panama
Poland
Portugal
Russian Federation
Saudi Arabia
Senegal
Slovenia
Spain
Sri Lanka
Saint Vincent and the Grenadines
Tunisia
United States of America
United Arab Emirates
Venezuela (Bolivarian Republic of)